

# **Research Solutions, Inc. NasdaqCM:RSSS**

# **FQ3 2020 Earnings Call Transcripts**

**Thursday, May 14, 2020 9:00 PM GMT**

**S&P Global Market Intelligence Estimates**

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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 third quarter ended March 31, 2020. 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 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 on 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. Please go ahead.

## **Peter Victor Derycz**

*Founder, CEO, President & Director*

Thank you, operator, and good afternoon, everyone. Our fiscal third quarter marked a significant step forward for our company. We experienced an acceleration in our sales momentum, even amidst these unprecedented times. During the quarter, we recorded our highest level of annual recurring revenue for our Platforms business due to another strong period of new customer win and existing client upsells.

We also continued to experience customer count growth across both our Platform and Transaction business. This is a testament to our sales, marketing and customer happiness teams working tirelessly to ensure our customers are getting the best possible service and utilizing all of our capabilities, which can make their R&D tasks easier and more efficient, especially during these unique times.

We also received approval for our uplisting to NASDAQ and began trading on the exchange in late March. We believe the listing will help increase long-term shareholder value by improving liquidity and market awareness including the expansion of our investor base to more institutional investors.

Most importantly, however, is our organization's commitment to helping in the struggle against the COVID-19 pandemic. While we can't create a magic bullet cure, we are making contributions to the research community's global effort. In fact, we have introduced specific tools to further assist our clients in researching the pandemic, including the launch of a COVID-19 Research Viewer Gadget and providing copyright-free articles pertaining to the virus when applicable. I will have more to say on both momentarily.

Beyond the value of our tailored content, we provide our clients an efficient resource for all medical and scientific research in both times of economic uncertainty and work-from-home mandates. Our SaaS-based Article Galaxy platform can help organizations save time and money while providing access to all the research they need remotely. With this all-in-one research solution, organizations can enjoy full text content at the point of discovery, while filtering for lowest cost acquisition as well as one-click access to scientific papers and lab productivity tools, all in one highly efficient workflow.

As we recently stated in our corporate update press release earlier in April, our company is incredibly well positioned strategically, operationally and financially to weather any effect that the COVID-19 pandemic may have on our business. We have already been operating as a virtual company well before this global virus, which has helped keep our employees safe while operating without interruption during stay-at-home mandates implemented around the world. As a result, we have not had a single incidence of COVID-19 amongst our staff. The necessary systems, tools, security, processes and procedures are already built into our operating model. So there has been virtually 0 internal disruptions, and we are also a valuable resource for our customers and suppliers who may need some advice on how to operate most effectively in such an environment. I will give greater detail on the various initiatives we are implementing to make our Platform business even more valuable to the scientific and medical community during these unprecedented times, which will also serve this business well over the long term.

But first, I'd like to pass it over to Alan to walk through our fiscal third quarter 2020 financial results. Alan?

**Alan Louis Urban**  
*CFO & Secretary*

Thank you, Peter, and good afternoon, everyone. Jumping right into our fiscal Q3 results, our platform subscription revenue increased 36% to \$1 million, driven by a 33% year-over-year increase in total platform deployments from 281 to 374, which translates into 93 net incremental deployments in the trailing 12 months and 36 in Q3. The quarter ended with \$4.1 million in annual recurring revenue, up 12% sequentially and 39% year-over-year, reflecting the benefits of consistent selling and low churn of current platform customers. Please see today's press release for how we define and use annual recurring revenue and other non-GAAP terms.

Our transaction revenue increased 6% to \$7 million compared to \$6.6 million in the same year ago quarter. Transaction count increased from approximately 212,000 to 228,000 and total active customer count grew from 1,078 to 1,115. Within the total active customer account, the number of corporate customers was up 1% to 845, while academic customers were up 11% to 270. Together, these businesses delivered consolidated revenue of \$8 million, an increase of 9% compared to \$7.4 million in the same year ago quarter.

Moving on to gross margin. Our platform business saw gross margin increase by 50 basis points to 82.5% compared to the same year ago quarter. We continue to see benefits from proportional decreases in third-party data costs. As a reminder, our expanding scale provides leverage to become more cost-effective with our third-party providers, which has allowed us to consistently meet the high end of our target gross margin range of high 70% to low 80%.

Gross margin in our transaction business increased 60 basis points to 24.2%, primarily driven by lower copyright and personnel costs. As a result, consolidated gross margin increased 210 basis points to 31.6% compared to the same year ago quarter. The increase was primarily driven by a continued revenue mix shift to a higher-margin platform business, which we anticipate will continue improving as our platform business becomes a higher percentage of revenue.

Our total operating expenses were \$2.6 million compared to \$2.4 million in the same year ago quarter. The increase was primarily due to greater personnel costs as well as fees associated with our NASDAQ uplisting.

Net income from continuing operations increased to \$12,000 or 0 per share compared to a net loss of \$0.2 million or 0 per share in the year ago quarter. Adjusted EBITDA increased to \$145,000 compared to negative \$30,000 in the year ago quarter.

Moving on to our balance sheet. Cash and cash equivalents at March 31, 2020, increased to \$8.2 million versus \$5.4 million at June 30, 2019. The increase in cash was primarily the result from proceeds from the exercise of 1.5 million warrants during the quarter. There were no outstanding borrowings under our \$2.5 million revolving line of credit, and we

have no long-term debt or liabilities. This is the strongest our balance sheet has ever been with the highest cash balance in our company's history, providing further confidence in our ability to appropriately navigate these difficult times. But that being said, we remain vigilant and we'll be able to react quickly to changes in this unprecedented environment.

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

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Thanks, Alan. First, I'd like to highlight a groundbreaking new partnership that we entered into with Springer Nature subsequent to the end of the quarter. Through this partnership, we're launching Article Galaxy+ which grants our customers access to 35% of the world's scientific literature preloaded on the platform at no additional cost. With this new offering, our customers will gain immediate access to all Springer Nature research journals and book chapters along with seamless access to 20 million open access articles. Article Galaxy+ takes the best of Article Galaxy, the best of Springer Nature content as well as open access literature and it puts it all in one neat package, providing a powerful boost to the information toolkit of any research organization.

Historically, only the largest R&D organizations and universities were able to afford subscriptions to a large collection of high-impact journal content, let alone have the required staff to organize and manage an internal library. With this partnership, we're bringing these same big company capabilities to SMB enterprises, which represents a significant democratization of a key part of the world's scientific literature. There's no more need to quietly borrow friends' ever-changing passwords at universities or worry about the legality of accessing articles from dubious or even illegal sources to access Springer Nature's robust content library.

Additionally, all of this access will be fully integrated with Article Galaxy's corporate-friendly workflow environment, along with being available directly on Springer Nature's web properties.

We are incredibly excited about this initiative and truly believe it will be a game changer for our current clients along with providing another attractive value proposition when pitching to our prospective customers.

As you may have also seen, we recently announced the addition of the Article Galaxy research platform to the Microsoft Azure Marketplace, simplifying single sign-on or SSO, set up via pre-integration with Azure Active Directory. Through centralized user account management, administrators can automatically add or remove user access to applications for entire department. Rather than signing into each application separately, users only need to sign-on once to access all applications for which they've been provisioned to access. This now provides our customers a fast, simplified way to access Article Galaxy with the convenience of Azure SSO.

While we've always offered customized solutions to configure and integrate with Azure, the pre-integration makes the process much more efficient. Customers can simply download the Article Galaxy app from the Azure Marketplace and send us the configuration details, allowing us to secure authentication to a customer's workflow within a matter of minutes. We are always looking for ways to streamline and simplify the research process for our clients. And this is another step forward and further providing seamless access to our robust library of content and workflow tools within our Article Galaxy platform.

Now switching gears to what we are seeing in the COVID-19 environment. As I mentioned earlier, we are well positioned to weather this pandemic. To date, we have not experienced any disruption to our business or lost a client due to the virus. If anything, we are seeing R&D efforts across the life sciences industry expanding, especially as several of our customers are directly involved in the fight to find a cure.

Additionally, we have continued our product development without missing a beat. Article Galaxy is becoming more

robust as our customers' needs evolve, as new clients join our research efficiency movement.

As I mentioned in my opening remarks, we are making contributions to the research community's global effort. We have introduced specific tools like the COVID-19 Research Viewer Gadget and are also providing copyright-free articles pertaining to the virus. The COVID-19 Research Viewer gadget provides an up-to-date listing of COVID-19 scientific literature across all publishers, most of which have committed to removing paywalls from COVID-19 articles. This was built using PubMed as the data source and displays thousands of COVID-19 journal articles at a glance.

The tool also displays the top research articles based on Article Galaxy usage activity, a curated list of links to publishers and other COVID-19 information resources and an interactive map that shows the current number of confirmed cases and mortality statistics across the globe.

In addition, the gadget is available free of charge to customers regardless of subscription levels. Since the initial launch of this gadget, we are continuing to make further enhancement and have received very positive feedback.

We also implemented a new billing policy for copyright-free COVID-19 articles. Given most publishers are removing paywalls, and in some cases, retroactively on peer-reviewed articles related to the COVID-19 pandemic, the distribution of metadata for these articles can't always keep up with these changes as quickly. There will likely be cases where our customer order articles that should be free of any copyright charge, but were not initially delivered for free or may have shown a price at the time they were ordered. To ensure customers do not pay for any articles for which paywalls have been removed, our team has been diligently running a monthly analysis of our billing data and removing any copyright charges for papers that publishers have made available for free.

In cases where a customer believes they were mistakenly charged for the COVID-19 articles, we are also offering an open refund policy. Our organization remains committed to providing the most up-to-date and helpful resources, and we will consistently evaluate ways in which we can make the research process as relevant and seamless as possible, especially during these unique circumstances.

Going forward, we have the utmost confidence in our ability to continue meeting our customers' evolving needs in this current market environment. In fact, our momentum is continuing in our fourth fiscal quarter as we experienced another strong month in April. Although there is currently nothing on the horizon that we believe could potentially impact this momentum, we remain vigilant, and our team is closely monitoring this dynamic environment. We are cautiously optimistic about the demand trends moving forward and remain well positioned with the highest cash balance in our company's history, 0 debt and full access to a line of credit, all of which further supports our strong outlook. 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] Our first question comes from Peter Rabover of Artko Capital.

## Peter Rabover

Congratulations on the -- on another good quarter and really pleased to hear the confident tone of -- for the future outlook. So I guess my first question is, you have these partnerships -- 2 new partnership with Springer and Evidence Partners. And so maybe an update on the Evidence Partners partnership and then is there -- it's kind of a triangle almost, but is there a way to leverage the Evidence Partners with the Springer Partners partnership? Or how would that all work?

## Peter Victor Derycz

*Founder, CEO, President & Director*

Yes. Thanks, Peter. Yes. So -- yes, we announced that partnership with Evidence Partners. It's -- we're very similar companies and it's really going well. In May, this month, we are launching a technical integration with them. So they'll be using some of our APIs and other ability to connect our platform, and actually start inserting -- get article buttons and things like that into their platform, which connect directly with Article Galaxy. So that's really great to see the technical integration moving forward. The customers that want to use the integration basically have to be customers of both Evidence Partners distiller product and Research Solutions Article Galaxy product. So it's really -- you really have to be a customer of both to use it. So we're out looking at where the upsell opportunities are with our existing joint customers as well as where new opportunities are with customers that may be using one product but not the other, and telling to them.

With regards to Springer, how that -- sorry, just to get into the Springer Nature partnership. The Springer Nature launch with this new version of Article Galaxy called Article Galaxy+. It's designed to -- it really is Article Galaxy, but just designed to have Springer Nature content sort of pre-included. In that -- the one limitation for it is that it's really designed for our sweet spot customer, which are small and medium-sized businesses. So if you're an SMB, user of Article Galaxy+ and a customer as well of Evidence Partners distiller, then it all will work seamlessly together.

## Peter Rabover

Okay. Are the economics of Article Galaxy+ same? Or should we expect a little different things to show up through the P&L, if there's like revenue sharing or cost sharing? Or how should we think about that going forward?

## Peter Victor Derycz

*Founder, CEO, President & Director*

Yes. The way we modeled it is that we designed the pricing around Article Galaxy+ to provide a net boost. So we're not sacrificing anything going in that direction. We're actually -- it's a premium addition of Article Galaxy. And so as a result, the pricing is different.

## Peter Rabover

Are they -- and Evidence, are they cross-selling your products? Have you had any revenues or customer sign up yet through either one of the -- through the one of the partnerships?



**Peter Victor Derycz**

*Founder, CEO, President & Director*

Yes, it's early stage. Yes, there's definitely customers that are waiting in the queue here for the integration. And so that's coming out this month. So that's -- within the next couple of weeks, that will happen. So there's definitely interest. We also recently had a joint webinar with Evidence Partners. And it's been -- it was the most successful webinar we've ever had. So we had hundreds of people really signed up for it, and not all of them attended, but I think it did 250 to 300 attended, and that's the highest attendance webinar, like I said, we've ever had. So we think -- we're feeling good about the partnership. We think it's good for their customers and good for our customers, and that if you're a joint customer, then I think it's really a great solution.

**Peter Rabover**

Okay. I guess now that you're kind of launching into the new, hopefully, a more sustainable, higher growth phase. Do you think you have enough SG&A capability, I guess, to support that growth? Or do you anticipate more SG&A investment in the near future?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

No, I think we've got enough. I think there may be some shifting around of that and how we want to deploy focusing on different aspects of what we do, primarily sales, marketing, product development and product management. So there'll be some moving around of resources that we're looking to stay very similar in that area.

**Peter Rabover**

Okay. And then maybe it's a little too early to ask this question, but I'd be curious now that you're a NASDAQ company and you do have a growing cash balance, but what have you guys thought about capital allocation? And then how do you -- what are you thinking about doing with -- as you're more a cash flow positive company?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Yes. We had to have a bigger balance sheet to qualify -- to meet some of the criteria for NASDAQ, so that warrant exercise that occurred was really helpful in that regards. And as a result, yes, we're sitting on cash, and it seems like we're generating more or entering a phase that we're starting to generate it more. So there are 2 things that we're really sort of keeping an eye open for. One is, yes, we want to be able to make sure that we are in the strongest position possible to weather any kind of storm that could come our way. Yes, we were -- we talked about all the great things that are going on in the company. But we are also vigilant. We don't see any bad news on the horizon for us and for our customer base. We believe the world is in the science now, and we're firmly positioned in there. But we are vigilant. So we do want to make sure that our customers, our prospects, our suppliers, our staff really feel comfortable that with all the uncertainty on the marketplace that we're rock solid. And so that's one of the things that improved balance sheet is really useful for.

The other thing is we're also opportunistic, right? So we are making a lot of improvements to the product Article Galaxy+, partnerships with like Springer Nature. There are other partnerships we're working on. And so we're also being very opportunistic. And so we really want to make sure that if there's a hockey stick moment for us to really jump on something that we have the dry powder to do so. So those are the two main, I think, benefits of that increase and probably growing balance sheet.

**Peter Rabover**

Okay. Yes. And I guess last question, just maybe touching on your hockey stick comment. Is there kind of a point where you guys thought about where -- like you'll be much more mainstream and recognized and to go from have you heard of Article Galaxy to how you don't have -- why don't you have Article Galaxy kind of industry wise? And was there kind of an uptick in your social media mentions, I don't know, things of both the PR and marketing nature, where you guys think you fit into the industry now and et cetera?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

So, I think, from my vantage point, you look at it globally, we're still tiny. I mean we'd love to be the Bloomberg of science. We've said that many times or the LexisNexis of science. And we're working and constantly building towards that. But if you look at it really on a global scale and compare us to somebody like Springer Nature, they're a multibillion-dollar company or -- yes, a multimillion-dollar company. And so I think part of the strategy, I think, with partnerships, whether they're with smaller companies or much larger companies is to really expand our presence, right, that brand awareness and the fact that, hey, once you know about us, then know what we do, that it becomes an obvious choice like, hey, why aren't we using this. But I think the company, from very broad perspective, is still in very early stages from that regard. And -- but there will be a moment where if you're in the life sciences industry, I believe that if you're not using our platform, you're going to feel like you're behind your competitors and not being -- not operating your R&D as efficiently as you should be. But still early days, I think.

**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 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 will face 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 and are management's good faith belief that at the 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 the 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 the reconciliation to the nearest GAAP measures in today's earnings press release.

Finally, I would like to remind everyone that a recording of today's call will be available for replay after 8:00 p.m. Eastern Time, and through June 4, 2020. 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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