

Issuer Direct Corporation ISDR

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by

andreas947

			2020	2021
Price:	11.00	EPS	0	0
Shares Out. (in M):	4	P/E	0	0
Market Cap (in \$M):	45	P/FCF	10	8
Net Debt (in \$M):	0	EBIT	0	0
TEV (\$):	30	TEV/EBIT	0	0

Description

Summary

We focus on smaller companies with “Ft. Knox” balance sheets and large & sustainable free cash flow yields and we are typically seeking a double-digit FCF yield or higher on an unleveraged basis. The objective for the sustainable FCF is to eventually drive up the share price to a more reasonable valuation through share buybacks, debt reductions, dividends, or accretive acquisitions. Obviously, it is more important we have a management team that cares about shareholder value. We focus on small-cap stocks because there is a much better chance to find an attractive investment opportunity which is under-followed or undiscovered.

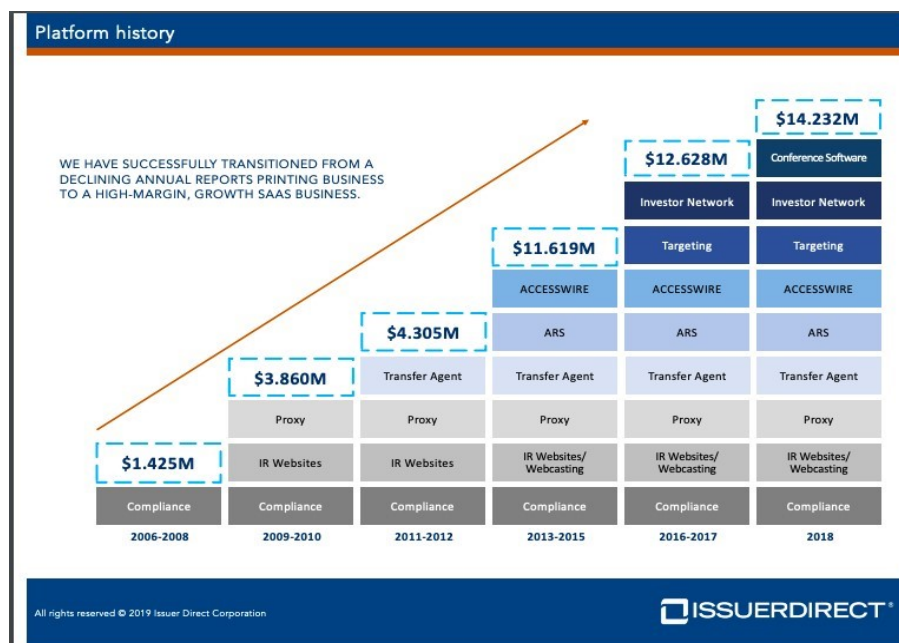
Issuer Direct (ISDR) is the industry leader for corporate compliance, disclosure management services, and communications delivering a platform that manages a broad spectrum of information, including regulatory filings, news distribution, earnings calls/webcasts, investor relations services, and more. The Company was founded in 2006 and was mostly focused on EDGAR and compliance services for public and private companies and has since transitioned into a leading compliance and communications platform-based business. The Company has done multiple acquisitions, one of which was Access Wire, one of the leading newswire services in North America and the primary driver for ISDR’s Platform & Technology revenue growth. Platform id provides both public and private companies with comprehensive and relevant modules, technologies, tools, and services for investor relations, communications, and compliance needs. The Company mostly focuses on micro- to small-cap companies and currently provides its services to over 2,500 customers. ISDR is continuing to capture market share as they grow and add modules to its platform. ISDR was founded in 1988 and is headquartered in Raleigh, North Carolina.

ISDR is an almost 70% gross margin, mostly recurring-revenue software business with a diverse list of customers. ISDR’s shares currently trade at about \$11 per share with about 3.8m shares

outstanding for a market cap of about \$45m. ISDR has a “Ft. Knox” balance sheet with \$15m of net cash or about 33% of the total market cap and an enterprise value (EV) of \$30m. The Company has a strong ability to meaningfully grow its ARPU in a large and expanding global addressable market. ISDR has a highly cash-generative business model with minimal capital expenditures or working capital needs. ISDR trades at an attractive valuation, with a high single digit unleveraged free cash flow yield. ISDR has generated close to \$3m per year in cash from operations over the past several years, as compared to its current \$30m enterprise value. CEO Brian Balbirnie owns 16% of outstanding shares and we believe is an excellent operator who is highly focused on creating shareholder value.

We believe that ISDR can grow its software business model over the next few years and recurring revenues should become over 80% of total revenues as legacy services are transitioned to its software platform. We believe ISDR could achieve adjusted EBITDA of \$4m or more by 2022 and trade for 10x adjusted EBITDA with a net cash balance sheet of \$20m for a market cap of about \$60m. Based on 3.8m shares outstanding, ISDR could achieve a share price of close to \$21 per share, versus its current price of about \$11, or about 100% upside.

The mission of Issuer Direct is to be a high-quality, cost-effective provider of communication and compliance workflow technologies to customers around the world. ISDR’s Platform is intelligent subscription platform guides thousands of customers through the process to communicate with millions. The Company has successfully transitioned from a declining annual reports printing business to a high-margin, growth SaaS business.



Platform id empowers users by carefully integrating the most relevant tools, technologies and products, which eliminates the complexity associated with producing and distributing their business communications and financial information.

Strong Business Model and Pivot Response to Covid-19

ISDR has a strong software business model which should have resiliency amid Covid-19 and work from home trends. While we believe certain parts of its business will be impacted by the pandemic, its software model should exhibit good resiliency during this period. ISDR has pivoted to upgrade virtual capabilities in its investment conference platform and its annual meeting business as its teams delivered strong virtual solutions as in-person investment conference and annual meetings are not likely to be held for months. We expect these virtual products to mute some of the pressure on its overall business model during the remainder of 2020.

Diverse and Growing Customer Base

In Q4 of 2019, ISDR worked with 1,501 publicly traded customers versus 1,416 in prior year and 1,092 private companies versus 817 in prior year. In Q1 of 2020, ISDR worked with 1,473 publicly traded customers versus 1,482 in prior year and 1,289 private company customers versus 764 in prior year.

ISDR works with a diverse customer base, which includes mostly public and private companies, but also investment banks, professional firms, such as investor relations and public relations firms, as well as the accounting and legal communities. These customers can utilize Platform id from document creation, regulatory filing, news outlets, financial platforms, and more. Private companies primarily use the news distribution and webcasting products and services to spread their message globally. Platform id's subscription platform helps customers through the process of communicating their message to a large audience.

ISDR also works with several stock exchanges by making available certain parts of their platform under agreements to integrate offerings within their products. ISDR believes that such partnerships will create increased exposure to a targeted customer base that could impact their revenue and overall brand in the market.

Platform id

ISDR's principal platform is Platform id, which is their cloud-based subscription platform that

efficiently and effectively helps customers manage their events when seeking to distribute messages to key constituents, investors, markets, and regulatory systems around the globe.

Corporate Vision



OTC Markets



London Stock Exchange



CSE CANADIAN SECURITIES EXCHANGE
The Exchange For Entrepreneurs

- Obtained FD News status with 6 major exchanges + NEO and IEX, tracking LTSE currently
- Customer counts have increased from hundreds to thousands in 4 years
- Distribution points continue to grow & is key to revenue growth
- Avg. \$ per release also continues to grow
- News volume (+/- 6%)

Dozens (2014)

YAHOO! FINANCE

MarketWatch

MORNINGSTAR

Newscom

Newstex

Hundreds (2015-2018)

ZACKS
Our Research. Your Success.

iTRADE
FACTIVA DOW JONES

BARRON'S
Interactive Brokers

AP ASSOCIATED PRESS
StreetInsider.com

Bloomberg Seeking Alpha^α

WALL STREET JOURNAL
REFINITIV

E*TRADE PR-Inside
Press & Media Services

2019+ (Focus)

TD Ameritrade

TELETRADER BUSINESS INSIDER
A STEP AHEAD OF THE MARKET

THE BUSINESS JOURNALS
A DIVISION OF ACBJ

Merrill Lynch

charles SCHWAB

Platform id contains several related but unique shareholder communications and compliance modules that public companies utilize every quarter when they have requirements to meet reporting obligations as well as fair disclosure to the markets.

Customers often need several types of services and software providers to be able to meet their communications and compliance needs. Platform addresses all these needs in one cloud-based platform - one that delivers consistent and compliant messaging from one centralized platform.



Communications Modules

Access Wire is a press release offering that ISDR acquired in 2013. The Access Wire product offering focuses on press release distribution for both private and public companies globally. The Company believes Access Wire is a competitive alternative to the traditional newswires because they have been able to integrate customer editing features and improve the targeting and growing

analytics reporting systems as well as increase its dissemination distribution footprint. ISDR also maintains flexible pricing by offering customers the option to pay per release or enter longer-term flat-fee subscriptions. Customers can access Access Wire within Platform id as part of a subscription, or as a stand-alone module.

In 2018, ISDR acquired Filing Services Canada Inc., or FSC-wire, which increased their customer base but also increased the global footprint, distribution capabilities, and editorial team of their press release business.

At the end of 2018, ISDR released a new module to Platform id, centered around the professional conference organizer (PCO). This subscription is being licensed to investor conference organizers, which the Company believes hold an estimated 1,000+ events per year. This is a cloud-based platform, which is available as a mobile app, offers organizers, issuers, and investors the ability to register, request, and approve one-on-one meetings, manage schedules, perform event promotion and sponsorship, print attendee badges, and manage lodging. ISDR offers this module as it gives a unique offering for PCOs that is not available elsewhere in the market.

Compliance Modules

Platform id's disclosure reporting model is a document conversion, editing and filing offering which is designed for reporting companies and professionals seeking to insource the document drafting, editing, and filing processes to the SEC's EDGAR system. As this module is being adopted by new customers, there has been a negative impact on their legacy disclosure conversion services business. However, the margins associated with the Platform and Technology business compared to the Services business are higher and align with ISDR's long-term strategy, and they believe this module will have a positive impact on the compliance business moving forward.

A valued subscription add-on in the Platform-id offering is the ability for customers to gain access to real-time information about shareholders, stock ledgers, and reports and to issue new shares from the cloud-based stock transfer module. ISDR has been focused on selling subscriptions of the stock transfer component on their platform, allowing customers to gain access to the cloud-based system in order to move shares or query shareholders, which has resulted in a more efficient process for customers and the Company.

						3 mos.	3 mos.
Revenue Streams	2016	2017	2018	2019	2019	2019	2020
Platform and Technology	35.6%	50.7%	60.4%	65.6%	63.8%	63.8%	66.9%
Services	64.4%	49.3%	39.6%	34.4%	36.2%	36.2%	33.1%
Total	100%	100%	100%	100%	100%	100%	100%
						3 mos.	3 mos.
Revenue Streams	2016	2017	2018	2019	2019	2019	2020
Platform and Technology	\$4,294	\$6,398	\$8,593	\$10,696	\$2,665	\$2,665	\$2,685
Services	\$7,765	\$6,230	\$5,639	\$5,599	\$1,514	\$1,514	\$1,331
Total	\$12,059	\$12,628	\$14,232	\$16,295	\$4,179	\$4,179	\$4,016

ISDR has a highly cash-generative business model with limited capital expenditure and working capital requirements. ISDR has averaged close to \$3m of cash from operations over the past several years versus its modest enterprise value of about \$30m. ISDR makes significant growth-oriented investments in sales and marketing and product development and these investments are mostly expensed via the income statement.

Attractive Valuation and Unlevered FCF Yield

ISDR has generated close to \$2.5m in LTM free cash flow which compares favorably to its enterprise value of about \$30m for a high single digit unleveraged free cash flow yield. We believe this valuation is attractive, especially considering ISDR's organic growth opportunity via its Access-wire news distribution business, as well as the opportunity for inorganic niche acquisitions in adjacent products to its current line-up.

Recurring Revenue Business with High Renewal Rates

ISDR has a business model with a high proportion of recurring revenues, where customers need to renew every quarter. We estimate this could be over 80% of total revenues. Over 60% of total revenues are cloud-based on its platform. In addition, ISDR has a high renewal rate from its existing customers, well into the 90% range according to CEO Balbirne. We expect cloud-based revenues to increase as a share of total revenues for ISDR as legacy services are transferred onto the cloud platform. This highly recurring base of revenues is quite valuable. We believe ISDR could trade at a high multiple as revenue growth accelerates.

"Ft. Knox" Balance Provides Downside Protection and Liquidity

ISDR has a strong "Ft. Knox" balance sheet, with a net cash position of close to \$15m as of Q1 2020, or about 33% of ISDR's total market value. We believe this reduces risk and gives management strong flexibility to consider niche acquisitions of adjacent products that can be added to ISDR's cloud platform and cross-sold to its existing customer base.

Strong Competitive Position in News Wire Industry

ISDR has a strong product offering in the news wire industry, which is close to \$1b in total revenues and dominated by four major players. In addition, the news wire industry is extremely difficult to enter and requires a strong distribution network which is not easy to build. ISDR believes its Access Wire news distribution offering is significantly less expensive with competitive and superior capabilities as compared to the major news wire players. This has enabled Access Wire to continue to take market share in this stable industry.

Access Wire Revenue Growth is Strong

ISDR experienced an industry-wide loss of investment commentary revenue over the past four quarters through Q1 of 2020 which has masked Access Wire's rapid growth in revenues. Excluding investment commentary revenue, Access Wire grew revenues 44% in 2019 and 36% in Q1 of 2020. Q1 of 2020 was the last quarter Access Wire lapped against lost investment commentary revenue so its growth potential should become clearer to investors going forward.

We believe Access Wire is likely ISDR's most valuable business and the current valuation does not reflect its potential.

Attractive Potential for Acquisitions

ISDR continues to evaluate complimentary verticals and systems that the Company can integrate well into the current platforms. These opportunities need to be consistent with what has been done in the past. ISDR will look for acquisitions in areas they currently generate revenues and/or see clear opportunities to leverage their strengths to disrupt existing markets. In these acquisitions, ISDR will seek recurring long-term revenues, customers, and leading technologies that will further enhance the overall market position.

Competitive Advantage

The earnings event industry is a highly competitive space with a majority being driven from practitioners in investor relations and communications firms. There are 5,000+ companies in North America who conduct earnings events each quarter which includes teleconferences, webcasts, or both. Platform id also incorporates other elements of the earnings events, including earnings date/call announcement, earnings press release, and SEC Form 8-K filings. Despite the competition, ISDR has a real-time event setup and their integrated approach offers a more

effective way to manage the process as well as attract an audience of investors.

Conclusion and Price Target

We believe that ISDR can grow its software business model over the next few years and recurring software type revenues should become over 80% of total revenues as legacy services are transitioned to its software platform. We believe ISDR could achieve adjusted EBITDA of \$4m or more by 2022 and trade for 10x adjusted EBITDA with a net cash balance sheet of \$20m for a market cap of about \$60m. based on 3.8m shares outstanding, ISDR could achieve a share price of close to \$21 per share, versus its current price of about \$11, or about 100% than current prices.

growth

1

ORGANIC GROWTH

- Invest and Expand Salesforce
- ARPU Expansion on renewals, and new deals where possible
- New Products Offerings

2

ACQUISITIONS

- Accretive
- Critical mass in a current product
- Adjacencies
- Disciplined

3

GEOGRAPHIC EXPANSION

- Canada
- EU
- Asia

Major Shareholders			
Balbirnie, Brian (CEO)	619,829	16.4%	
Polar Asset Management	298,264	7.9%	
Yorkmont Capital	250,000	6.6%	
Forager Capital	230,543	6.1%	
Michael James	229,300	6.1%	
Richard Witmer	190,454	5.1%	

							3mos	3mos
Income statements		2015	2016	2017	2018	2019	2019	2020
FYE 12/31								
Sales		\$12	\$12	\$13	\$14	\$16	\$4	\$4
Gross profit		\$8	\$9	\$9	\$10	\$10	\$3	\$3
SG&A expense		\$6	\$6	\$6	\$7	\$7	\$3	\$3
EBITDA		\$2	\$3	\$2	\$2	\$2	\$1	\$1
EBIT (ex items)		\$1	\$2	\$2	\$1	\$0	\$0	\$0
Net income		\$0	\$2	\$2	\$1	\$1	\$0	\$0
Diluted EPS		\$0.06	\$0.54	\$0.62	\$0.24	\$0.18	\$0.05	\$0.06

							3mos	3mos
Cash flow stmts		2015	2016	2017	2018	2019	2019	2020
FYE 12/31								
Net income		\$0	\$2	\$2	\$1	\$1	\$0	\$0
Dep & amort		\$1	\$1	\$0	\$1	\$1	\$0	\$0
Non cash adjust		\$1	\$1	\$1	\$1	\$1	\$0	\$0
Working capital chgs		\$1	\$0	(\$1)	\$0	\$0	(\$0)	(\$0)
Cash fr operations		\$3	\$4	\$2	\$3	\$3	\$1	\$1
Capital expenditures		\$0	\$0	\$0	\$0	\$0	\$0	\$0
Dividends		\$0	\$0	(\$1)	\$0	\$0	\$0	\$0
Share repurchases		\$0	\$0	\$0	(\$2)	(\$1)	\$0	\$0
Other		\$0	\$0	\$0	\$0	\$0	(\$3)	\$0
Est. free cash flow		\$3	\$4	\$2	\$3	\$3	\$1	\$1

Balance sheets	2015	2016	2017	2018	2019	3/31/20
FYE 12/31						
Cash	\$4	\$5	\$5	\$17	\$16	\$16
Total assets	\$11	\$13	\$17	\$29	\$32	\$33
Total debt	\$0	\$0	\$1	\$1	\$1	\$2
Preferred stock	\$0	\$0	\$0	\$0	\$0	\$0
Shareholder equity	\$9	\$11	\$13	\$26	\$26	\$26
Net debt	(\$4)	(\$5)	(\$4)	(\$16)	(\$15)	(\$14)
Shares outstanding	3	3	3	3	3	3

Catalysts

1. Strong business niche with software for communications and compliance services.
2. High growth for Access Wire product which is one of the top newswire services and taking market share due to lower cost and better product.
3. High ROIC business with over 100% ROIC based on LTM results.
4. Software business is close to 70% of total revenues and its proportion of total revenues should continue to increase over next few years.
5. Highly cash generative business model with low capital expenditure and working capital requirements.
6. Attractive valuation at high single digit FCF yield unleveraged.
7. "Ft. Knox" balance sheet with net cash position of \$15m or about 33% of current market cap.
8. Growth opportunities in adjacent new products and geographic expansion and communications news services for private companies.
9. Has averaged close to \$3m in cash from operations for last several years
10. Declining revenues in services business segment mask growth of software business model.

Risks

1. Impact of Covid-19 is greater than we expected on 2020 results.
2. Economy declines sharply and does not rebound.
3. Competitors upgrade products or aggressively reduce pricing.
4. Misallocation of capital into a poor acquisition.

I do not hold a position with the issuer such as employment, directorship, or consultancy.
I and/or others I advise hold a material investment in the issuer's securities.

Catalyst

See above

Messages

Subject Questions
Entry 07/23/2020 06:03 AM
Member iseaid

Thank you for the idea, andreas947.

Why has the operating profit margin come down to almost 0 in the past 5-6 years?

How does ISDR compete as very small player in a very competitive market? Do they offer anything unique or different?

Have they mentioned how they will use cash from the equity raise?

Subject Re: Questions
Entry 07/23/2020 05:48 PM
Member andreas947

iseaid,

thanks for the questions.

operating profit has come down over last few years for a couple of reasons.

they have spent more on sales and marketing expense and product development expense to try to drive growth.

focus on recurring revenue software model and away from services business has reduced revenue growth initially.

also, they have completed some acquisitions and amortization has increased D&A expense.

key will be continued growth over time of Access Wire news wire business and leveraging revenues from that over these expense "investments" through the P&L.

ISDR is small player but offers a lower cost and equal or superior software product versus the larger players in news wire distribution business and is taking market share.

on cash raised, they will likely use for niche acquisitions for adjacent products they can add to their software modules.

CEO is (we think) pretty impressive, especially for a small company, and is pretty accessible. we would recommend talking to him.

hope that helps.

best, Andreas

Subject Author Exit Recommendation
Entry 03/16/2021 02:38 PM
Member andreas947

The author has recommended exiting the position