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RSSS - Q1 2015 Research Solutions Inc Earnings Call

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CORPORATE PARTICIPANTS

Peter Derycz *Research Solutions, Inc. - President, CEO*

Alan Urban *Research Solutions, Inc. - CFO*

PRESENTATION

Operator

Good afternoon and welcome to the Research Solutions fiscal first-quarter 2015 results conference call. My name is Roland and I will be your operator today.

Joining us for today's presentation is Research Solutions' President and CEO Peter Derycz and CFO Alan Urban. Following their remarks, we will open up the call for your questions. Then before we conclude today's call, I will provide the necessary cautions regarding the forward-looking statements made by management during this call, as well as information about the Company's use of non-GAAP financial information. 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.

Now I would like to turn the call over to Research Solutions' Chief Executive Officer, Mr. Peter Derycz. Sir, please proceed.

Peter Derycz - *Research Solutions, Inc. - President, CEO*

Thank you, Operator, and thank you all for joining us today for our fiscal first-quarter 2015 earnings conference call. We really appreciate you taking the time to learn more about our performance and our future.

I'm going to start this call with key highlights from our earnings release about the first quarter. Article Galaxy revenue increased 17% to \$5.2 million. Article Galaxy transactions increased 17% to 140,821 transactions. Adjusted EBITDA increased 272% to \$192,000. Article Galaxy gross profit was up 27% to \$1.3 million, with gross profit as a percentage of revenue up 200 basis points to 24.9%. Active customer accounts increased 33% to 752.

Net income from continuing operations improved to a net loss of \$7,000 or \$0.00 per diluted share, compared to a net loss of \$97,000 or \$0.01 per diluted share the same year-ago quarter.

In the first quarter of 2015, our momentum continued to build with Article Galaxy attracting many new customers and producing double-digit revenue growth with record gross margins. This is due to a variety of factors, which I will discuss in a bit more detail. Following my discussion, Alan will take the mic and drill into our numbers in more detail.

To begin with, I'd like to say that the first quarter reflected the success in our transition from a hybrid digital print business to our fully digital solution. And Article Galaxy, our cloud-based software as a service solution, has emerged as our key product.

Article Galaxy is used primarily to help research-driven organizations obtain access to key must-have scientific literature to support research and regulatory and intellectual property efforts in a way that fits into their internal workflows.

Our customers are research-driven organizations in the pharmaceutical, biotechnology, food, chemicals, aerospace, engineering, electronics, semiconductor, automotive, environmental protection, legal, and academic sectors. Through Article Galaxy, these customers receive broad access to key information resources on a robust platform that can integrate with their own internal networks, systems, and workflows 24 hours a day, seven days a week, 365 days a year. Article Galaxy does this in addition to bringing tremendous efficiencies and cost savings that can be measured and tracked.

As my highlights pointed out, Article Galaxy has achieved steady growth via rapid customer adoptions. Our customers learn about Article Galaxy through our sales and marketing efforts, but more importantly via word of mouth. One satisfied customer just brings on another.



We now have 752 active accounts all over the world. By active accounts, we mean accounts that spend money with us every single month. Through these accounts, we serve hundreds of thousands of end users. During the month of October, I met personally with dozens of our customers. These customers never stopped telling me how much they liked working with us and that they are recommending us all the time.

It's this kind of growth that gets all of us very excited here at the Company and it's one of the reasons that members of our management team have been buying shares of our Company in the open market. We think our prospects are bright.

During the first quarter, we have made significant improvements to the Article Galaxy platform, as well as to the operations that support it. This has allowed us to improve our offering and attract more customers. The improvements we have made during the year have brought tremendous gains in speed, productivity, and cost savings for our customers, as well as improvements in the end-user experience.

We have also upgraded internal operating systems, improved the efficiency of our computing architecture, boosted reliability and stability, and made significant improvements to our human resource infrastructure. We will be relentless in our quest to continuously improve.

Article Galaxy is not just a system, but represents a dedicated team of individuals in a variety of departments who are ultimately responsible for making our customers happy. As I always say, Alan and I are proud members of that team. This combination of improvements to our technology, operations, and human resources has allowed us to improve our scalability and gross profit simultaneously.

On a final note, during the quarter we added several key new customers from life science and research-intensive organizations, which now includes four out of the top five drug companies, ranked by R&D performance in 2014. Our sales pipeline is the strongest it has ever been and we are in advanced discussions with one of the largest pharmaceutical companies in the world to become one of our top 10 customers.

In fact, our customer acquisition efforts have realized a 90% closing rate when our solution is evaluated against our competitors. To repeat that, we are winning nine out of every 10 deals when going head to head with our competition. Further, we have been seeing virtually no attrition from existing customers, demonstrating the stickiness of our business model.

Now I would like to turn the call over to our CFO, Alan Urban, who will take us through the financial details of the fiscal first quarter. Alan?

Alan Urban - *Research Solutions, Inc. - CFO*

Thank you, Peter.

Earlier today, we issued a press release with our results for the first fiscal quarter, ended September 30, 2014. A copy of this release is available in the investors section of our website at ResearchSolutions.com.

Our total revenue was \$7.5 million for the quarter, an increase of 14% compared to the same quarter last year. The increase is primarily attributable to the Company's migration from its legacy print business to Article Galaxy, its digital, cloud-based, software-as-a-service solution.

Article Galaxy now accounts for approximately 69% of revenue and saw \$5.2 million in revenue for the quarter, an increase of 17% compared to the same quarter last year. The increases were primarily due to increased orders resulting from the acquisition of new customers.

Single-article delivery services generate nearly all of the revenue attributable to the Article Galaxy journal article platform. Even though single-article delivery services are charged on a transactional basis, customer order volume tends to be consistent from month to month, in part due to consistent orders of our larger customers that require the implementation of our services into their workflow.

Article Galaxy transactions increased 17% to approximately 141,000 during the quarter, compared to approximately 121,000 in the same quarter last year. Active customer accounts also increased, 33%, to 752 in the quarter versus 564 in the same quarter last year.

Revenue from our paper-based reprints product was \$2.3 million in the same quarter, an increase of 8% compared to the same quarter last year. The increase is primarily due to increased orders from the acquisition of new customers. Reprints are also charged on a transactional basis, but order volume can be volatile and fluctuate materially from month to month, based on customer marketing budgets and the existence of journal articles that fit customer requirements.

Total gross profit was \$1.5 million for the quarter, an increase of 25% compared to the same quarter last year. Total gross profit as a percentage of revenue was up by 1.8 points for the quarter compared to the same quarter last year, from 18.1% to 19.9%. The increase was primarily due to slightly reduced production expenses and decreased payments to publishers.

Gross profit from Article Galaxy, which accounted for approximately 87% of gross profit, was \$1.3 million for the quarter, an increase of 27% compared to the same quarter last year. Gross profit as a percentage of revenue from Article Galaxy was also up by two points for the quarter compared to the same quarter last year, from 22.9% to 24.9%.

Total operating expenses were \$1.5 million for the quarter, an increase of approximately \$200,000, or 16%, compared to the same quarter last year. The increase was primarily due to increases in compensation and professional service fees.

Net income for the first quarter improved to \$1.1 million, or 7% per diluted share, compared to a net loss of approximately \$100,000, or 1% per diluted share, for the same quarter last year. Net income from continuing operations for the first fiscal quarter improved to a net loss of \$7,000 or \$0.00 per diluted share compared to a net loss of \$97,000 or negative \$0.01 per diluted share for the same quarter last year.

On August 18, 2014, our former French subsidiary, TAAG, became a discontinued operation and ceased to be our subsidiary on October -- pardon me, on September 15, 2014. TAAG was accordingly deconsolidated from our financial statements. In the first fiscal quarter, we recognized a \$1.5 million non-cash gain from the deconsolidation of our former French subsidiary.

Adjusted EBITDA increased 272% to approximately \$192,000 for the quarter, compared to adjusted EBITDA of approximately \$52,000 for the same quarter last year. Adjusted EBITDA is defined as net income plus interest expense, other income or expenses, provision for income taxes, depreciation and amortization, stock-based compensation, income or loss from discontinued operations, and other potential adjustments that may arise. We use the non-GAAP measure of adjusted EBITDA because we believe that it provides useful information in comparing our performance across multiple periods on a consistent basis by excluding items that we believe are not indicative of our core operating performance.

At the end of the fiscal quarter, we had cash and cash equivalents of approximately \$1.5 million, compared to \$1.9 million at June 30, 2014, a decrease of approximately \$400,000. This decrease is primarily attributable to cash used in discontinued operations.

We believe that our current cash resources, borrowing availability under our existing line of credit, and expected cash flows from operations will be sufficient to sustain operations for the next 12 months and beyond. As of the first fiscal quarter, there were no outstanding borrowings under the Company's revolving line of credit with Silicon Valley Bank. The amount of the line is the lesser of \$4 million or 80% of eligible accounts receivable, which equaled approximately \$1.7 million at the end of September 30, 2014.

This completes my financial summary. Peter, back to you.

Peter Derycz - Research Solutions, Inc. - President, CEO

Thank you, Alan.

Over the last quarter, we have made significant progress executing on strategic initiatives that are designed to drive growth and shareholder value. This momentum has continued in the current quarter with Article Galaxy attracting many new customers and furthering our transition from a hybrid digital print business to a fully digital solution.



Our superior user experience and strengthened sales force continue to be key drivers for attracting new customers, and our customer acquisition efforts continue to realize a 90% closing rate when our solution is evaluated against our competitors. Further, the stickiness of our business model continues to be proven with virtually no attrition from existing customers.

From an operational perspective, we are continuing to invest in improving the Article Galaxy platform to enhance the speed and convenience when customers procure STM content for their research purposes, as well as ensure scalability as our customer list grows.

We are encouraged with all the positive feedback we receive from our customers and remain confident in our industry-leading position.

Based on transactions and contracts signed to date, as well as our expanding pipeline, we believe that we are on pace to achieve strong revenue growth and significant profitability in fiscal 2015. This positive outlook is supported by a healthy industry and our existing customer base of global life science and research-intensive organizations.

We really look forward to sharing our positive outlook at the upcoming LD Micro conference in Los Angeles on December 2, 2014, where we will be presenting and then meeting with institutional investors and equity analysts throughout the day.

Now with that, we are ready to open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). I'm showing no questions at this time. I'd like to turn the call back over to Mr. Peter Derycz for his closing remarks.

Peter Derycz - Research Solutions, Inc. - President, CEO

All right. Thanks to everyone for joining us on our call today. Lastly, if we were not able to address all of your questions on today's call, please feel free to contact us or our investor relations firm, Liolios Group, who would be happy to answer them. We look forward to speaking with you soon. Operator?

Operator

Before we conclude today's call, I would like to provide Research Solutions' Safe Harbor statement that includes important cautions regarding forward-looking statements made during this call, as well as a statement regarding the Company's use of non-GAAP financial information.

Examples of forward-looking statements on this call include statements related to our new strategic focus, product verticals, anticipated revenue, and profitability. Such matters involve risk and uncertainties that may cause actual results to differ materially, including the following -- changes in economic conditions, general competitive factors, acceptance of the Company's products in the market, the Company's success in obtaining new customers, the Company's success in technology and product development, the Company's ability to execute its business model and strategic plans, the Company's successes in integrating acquired entities and assets, and all the risks and related information described from time to time in the Company's filings with 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 reports on Form 10-Q. The Company assumes no obligation to update the cautionary information 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 a substitute for the financial information prepared and presented in accordance with generally accepted accounting principles accepted in the US, otherwise referred to as GAAP. Please refer to a more detailed discussion about



the Company's use of non-GAAP measures and a reconciliation to the nearest GAAP measures in today's earnings press release, which is available on the Company's website at www.ResearchSolutions.com.

Finally, I would like to remind everyone that a recording of today's call will be available for replay immediately after the call and through November 29, 2014. Please refer to today's press release for dial-in instruction. Thank you for joining us today for our presentation. You may now disconnect.

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