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RSSS - Q4 2015 Research Solutions Inc Earnings Call

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Tom Shaughnessy *SecretCaps - Analyst*

Walter Ramsley *Walrus Partners - Analyst*

PRESENTATION

Operator

Good afternoon. Welcome to Research Solutions fiscal fourth quarter and full-year 2015 results conference call. My name is Abigail 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 the 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 Web site.

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 - Chairman, CEO*

Thank you, operator and thank you all for joining us today for our fiscal fourth quarter and full-year 2015 earnings conference call. During the fourth quarter, we continued to build on our operational momentum and made significant progress executing on our growth plan.

This was demonstrated by several records achieved during the quarter with our flagship product, Article Galaxy, our cloud based Software-as-a-Service solution. Double-digit growth in Article Galaxy transactions, customer accounts and new customer acquisitions were some of the notable operational highlights made during the fourth quarter. These achievements also reflect our success in expanding our global sales team and cross-selling to our growing customer base in the corporate and academic markets which revealed the abundant opportunity we have selling to some of the largest pharmaceutical and other research based companies in the world with our expanding product suite.

This momentum has continued into the current quarter, as a key major pharma customer win which was onboarded in Q4 has now become one of our largest customers based on their strong initial order flow in September. With this new anchor customer, our client base now includes over half of the top 20 pharmaceutical companies in terms of global sales in 2014 and our active customer accounts increased by 14% to 811 accounts compared to 710 accounts in the same quarter a year ago.

And for the year, we had major efficiency and productivity improvements to Article Galaxy. These were launched throughout the year to improve the end user experience. We increased focus of our sales force to build upon their success in the corporate sector and address the much larger and mostly untapped academic market. This was also a key driver for signing new customers in 2015. Our customer acquisition efforts maintained a 90% closing and win rate when our solution is evaluated against our competitors. Article Galaxy is well underway positioning the Company for continued positive EBITDA in 2016.

Now before I comment further on our operational progress and outlook, I would like to turn the call over to our CFO, Alan Urban, to first take us through the financial details for the quarter and year. Alan?



Alan Urban - *Research Solutions Inc - CFO*

Thank you, Peter and welcome, everyone. Earlier today we issued a press release with our results for our fourth quarter and fiscal year ended June 30, 2015. A copy of the release is available in the Investors section of our Web site at researchsolutions.com.

Starting with our income statement. Revenue totaled \$7.6 million in the fourth quarter. That's down 1% compared to the same quarter last year. Revenue in 2015 increased 12% to \$31.9 million, compared to \$28.4 million in 2014. Approximately 80% or \$2.7 million of the increase was attributable to Article Galaxy and 20% or \$700,000 was attributable to Reprints.

Article Galaxy, which accounts for approximately two-thirds of our revenue generated \$5.4 million in revenue for the fourth quarter, increasing 8% over the same quarter last year. Article Galaxy revenue increased 14% in 2015 to a record \$21.4 million compared to \$18.7 million in 2014.

The onboarding of new customers from major pharma and research intensive organizations was reflective in a 20% adoption growth rate of Article Galaxy in the second half of the year. However, given the strong adoption rate and the unusually complex nature of onboarding a new large market customer, the Company sales and marketing and implementation teams spent a greater percentage of their time onboarding this newly signed client, as compared to previous quarters.

This had a temporary impact on Article Galaxy's revenue growth rate in the fiscal fourth quarter, coming in at 8% year-over-year versus 14% in the previous quarter.

After making its 10th consecutive quarter of year-over-year double-digit revenue growth for Article Galaxy in fiscal Q3, the Company expects this double-digit growth rate to resume in subsequent quarters. The increase in both periods was primarily due to increased Article Galaxy transactions from new customers with overall transactions up 23% to approximately 163,000 in the fourth quarter compared to approximately 133,000 in the same quarter last year and up 21% to approximately 602,000 in 2015 versus approximately 498,000 in 2014.

Active customer accounts also increased 14% to 811 in the fourth quarter, versus 710 in the same quarter last year and up 21% to 768 in 2015. That's versus 636 in 2014.

We define active customer accounts as the sum of the average whole and partial customers for the respective quarter or year. A whole customer is one with at least one Article Galaxy transaction in every month of the respective quarter or year. A partial customer is one with at least one Article Galaxy transaction in one or more months, but not every month of the respective quarter or year.

Even though Article Galaxy services are charged on a transactional basis, customer order volume tends to be consistent from month-to-month, in part due to consistent orders from our largest customers that require the implementation of our services into their workflow. So while Article Galaxy revenue is transactional, it is clearly repeat transactional revenue.

Our gross profit totaled \$1.46 million in the fourth quarter, down 5% versus the same quarter last year, while our gross profit in 2015 increased 13% to \$6.2 million compared to \$5.5 million in 2014. Total gross profit as a percentage of revenue declined by 70 basis points from 20% to 19.3% versus the same quarter last year. While gross profit as a percentage of revenue in 2015 increased by 30 basis points to \$19.1 million in 2014, roughly all of the gross profit increases were attributable to Article Galaxy as Reprints remained flat for the year.

Gross profit from Article Galaxy, which accounts for approximately 84% of our gross profit, was \$1.2 million for the fourth quarter, a decrease of 3% compared to the same quarter last year with the 2015 full-year gross profit up 16% to \$5.2 million. While gross profit as a percentage of revenue per Article Galaxy declined by 280 basis points from the year ago quarter, from 25.8% to 23%, our 2015 gross profit as a percentage of revenue increased 40 basis points to 24.5% versus 24.1% in 2014 and it remained on target with our annual goal of approximately 25%.

Our ability to sustain this target has been helped by reduced production expenses resulting from greater efficiencies as well as decreased content acquisition costs due to greater economies of scale. We expect this percentage to remain on target or even exceed target during fiscal 2016.

Total operating expenses were \$1.9 million for the quarter, an increase of approximately \$296,000 or 19% compared to the year ago quarter. Total operating expenses were \$6.7 million in 2015, an increase of approximately \$162,000 or 2.5% compared to 2014. In both cases, the increase resulted from stock-based compensation expenses.

Net loss from continuing operations for the fiscal fourth quarter totaled \$439,000 or \$0.02 per diluted share compared to a net loss of \$59,000 or \$0.00 per diluted share for the same quarter last year. Net loss from continuing operations in 2015 totaled \$542,000 or \$0.03 per diluted share compared to a net loss of \$1 million or \$0.06 per diluted share in 2014.

In the fourth quarter, adjusted EBITDA totaled approximately \$100,000 compared to adjusted EBITDA of approximately \$104,000 in the same year ago quarter. Adjusted EBITDA in 2015 increased by 232% to \$613,000 compared to an adjusted EBITDA loss of \$463,000 in 2014. This represents a very significant \$1 million swing in adjusted EBITDA.

We define adjusted EBITDA as net income or loss plus interest expense, other income or expenses, foreign currency transaction losses, provision for income taxes, depreciation and amortization and stock-based compensation and income or loss from discontinued operations. We use this non-GAAP measure because we believe 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 year, we had cash and cash equivalents totaling approximately \$1.4 million. That's compared to \$1.9 million at June 30, 2014. This decrease was primarily due to cash used in operating activities from continuing operations. We believe that our cash resources, borrowing availability under our existing line of credit and expected cash flow from operations will be sufficient to sustain our operations for the next 12 months and beyond.

As of our fiscal year-end, there were no outstanding borrowings on our 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 \$2.2 million available at June 30, 2015.

In addition, our balance sheet remains fairly clean with cash and prepaid expenses comprising nearly all of our assets and accounts payable and accrued expenses representing nearly all of our liabilities and we have no long term liabilities or debt.

This completes my financial summary. Peter?

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Thank you, Alan. As Alan mentioned, in fiscal 2015, we maintained our target range of 25% for Article Galaxy gross profit as a percentage of revenue. Fiscal 2015 was highlighted by key customer wins and the successful execution of strategic initiatives that drove growth and increased shareholder value. The double-digit growth of Article Galaxy across the board in terms of revenue, gross profit, total transactions and new customer wins further validates that the decision we made in 2014 to focus all of our resources towards global sales of this cloud-based SaaS solution.

During the second half of fiscal 2015, we added several key new customers in major pharma and research intensive organizations that accelerated the adoption rate of our solution by more than 20%. However given the size and complexity of one recent new customer, as Alan mentioned earlier, our sales and marketing teams experienced some resource bandwidth issues with a greater percentage of their time engaged in the onboarding process rather than focused on the acquisition of new customers.

This resulted in single-digit or 8% growth in Article Galaxy revenue in the fourth quarter, breaking our ten quarter double-digit growth streak. This one-time event was an anomaly and we expect Article Galaxy to resume its double-digit growth and not only due to our new customers, but also because of the processes we have now implemented that make onboarding more streamlined.

From a technology perspective, during the year we made several enhancements to the Article Galaxy platform and then announced several more subsequent to year-end. These recent enhancements help researchers accelerate their work by streamlining access to key STM information, as well as enhance corporate rights management and compliance. The stage is now set for even further major enhancements coming this fall, which



includes our new article rentals module which will bring much more granularity to the way our customers can access key scientific information. These enhancements will continue to make Article Galaxy by far the most highly valued research efficiency tool available anywhere in the world.

We wrapped up the fourth quarter with the appointment of John Regazzi as our new Chairman of the Board. John is a widely recognized pioneer in the STM information industry and brings to our board more than 40 years of corporate, government and academic experience. This experience includes being the former CEO of Elsevier largest STM publisher and information services provider. In many regards, gaining John's greater commitment to research solutions represents a major coup and certainly timely, as we begin what we anticipate to be another record year of growth and development. We are pretty excited about this and welcome John to the team.

We are always striving to improve user experience. In this month, we launched our new Article Galaxy summer 2015 product release. This new product release features breakthroughs and workflow efficiencies and bolsters journal content access with in-browser PDF downloads from non-subscribed resources plus other time-saving features for researchers worldwide. Also announced in August were several enhancements to the Article Galaxy widget, including the ability for users to bookmark, securely share and export journal article citations.

In fiscal 2016, we see Article Galaxy continuing to gain momentum as our expanded global sales force engages new corporate and academic customers. We expect to maintain our double-digit growth in Article Galaxy transactions, with this positive outlook supported by our recent enhancement to the Article Galaxy user experience as well as Company operational improvements.

So we enter our new fiscal year with Article Galaxy offering STM industry breakthroughs in terms of workflow efficiency and improved journal content access with new in-browser PDF downloads from non-subscribed resources, article rentals, as well as other time-saving and research efficiency features. Other key enhancements were made to the Article Galaxy widget, which includes the ability for users to bookmark, securely share and export journal article citations from popular tools, including Google Scholar and PubMed. We see all of these new features and efficiencies translating into higher revenue per customer and a stronger Article Galaxy platform.

Finally, we look forward to meeting with existing and potentially new shareholders at the upcoming 4th Annual Liolios Gateway Conference being held this week in San Francisco, California.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Our first question comes from the line of Tom Shaughnessy with SecretCaps. Your line is open.

Tom Shaughnessy - SecretCaps - Analyst

Hi, Peter. Hi, Alan. Congrats on the quarter and the year.

Peter Derycz - Research Solutions Inc - Chairman, CEO

Thank you.



Alan Urban - *Research Solutions Inc - CFO*

Thank you.

Tom Shaughnessy - *SecretCaps - Analyst*

I just had a quick question for you. The onboarding of the large customer you guys mentioned a few times, are you seeing greater traction as in terms of larger customers that we can expect potentially just give more revenue your way? Or is this just a customer that needed special attention? Or are we seeing you guys attracting larger customers to your solution?

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Yes. Definitely latter. We are attracting new larger accounts. This is definitely one of the world's largest research-based organizations that's joining us as a new customer. So it was the size of the implementation process but also the size of the customer is going to be significant revenue contributor to us.

Tom Shaughnessy - *SecretCaps - Analyst*

So looking forward, we would expect more revenue from your obviously larger customer, larger potential revenue?

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Yes. And so we are expecting continued double-digit growth of Article Galaxy - (technical difficulty).

Tom Shaughnessy - *SecretCaps - Analyst*

Hello?

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Now is up to 811. So we are clearly onboarding new accounts all the time.

Tom Shaughnessy - *SecretCaps - Analyst*

Excellent. Good to hear. Just the 16% sales, that's excellent than your academic accounts increasing 156%, that's amazing. Are you guys really shifting your focus to the academic market, because it is so much larger? Or are you still targeting corporate market?

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Yes. The academic market is an interesting market for us, definitely because of the size. We think the issue there for us is really trying to get our arms around understanding how the market really functions. And so we are seeing a lot of interest from the academic market and lot of customers coming onboard and trying it out, which is good. So we are getting feedback from these customers, figuring out how their budget cycles work, doing a bit of market research on the side as well. And we think that the customer additions will continue to build up and at some point we will reach some sort of breakthrough moment where we will be generating some significant revenue from the academic market. They are definitely about 10% of our customer count now.

Tom Shaughnessy - *SecretCaps - Analyst*

I was a little confused. I mean you guys said that the sales cycles is quite long, but then again, we have triple digit growth there. (inaudible), people are coming out and trying it? Or is it --

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Yes. We are seeing a lot of academic institutions coming on board and not becoming major customers overnight, but rather testing the waters to see how it works. There is a bit of a lull over the summer holidays, the school holidays, but we are seeing these accounts coming in and trying and ordering and see what it's like and so we are going to those customers, we are going back to those customers and trying to get feedback as to how we can get them to increase their spend with us. And so that's a process that we started about 18 months ago and we are getting more and more into it all the time.

Tom Shaughnessy - *SecretCaps - Analyst*

Excellent. Good to hear. I will go back in the queue, guys. Congrats on the quarter and the year.

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Thanks very much.

Operator

(Operator Instructions). Our next question comes from the line of Walter Ramsley with Walrus Partners. Your line is open.

Walter Ramsley - *Walrus Partners - Analyst*

Hi. Thanks. Congratulations, especially on getting that big customer. I have got a question about that. Did the onboarding process affect the current quarter that we are in, as far as being able to go our and get other customers?

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Well, it may spill over a little bit into the current quarter, but definitely the activity will be spilled over, but during the process, we definitely concluded it and then learned a few things along the way and made some process improvements so that we can streamline any future onboarding. So I think the onboarding process has been improved here.

Walter Ramsley - *Walrus Partners - Analyst*

Also you mentioned that there was some process improvement. Is it getting to a point now where you can just drop it in there and let them start right up? Or is it still kind of a long process to get it going?

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

No. Definitely there was, in this particular case, which doesn't happen as often, we had lot of testing going on. So the particular customer in question had a lot of testing that they wanted to do to make sure everything was connecting properly, your major system-to-system implementation. And



so a lot more testing than we have with other customers. And so as a result of that, what we did is, we made enhancements into our project management workflow and made some investment there. So we have better tools to work with in terms of project management for anything that may come in the future with large project like this.

Walter Ramsley - *Walrus Partners - Analyst*

That sounds good. I do have a question about one of the metrics that you brought up, the 20% increase in, I forgot what the terminology was, the adoption rate? What does that mean?

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Alan, do you want to point to that one?

Walter Ramsley - *Walrus Partners - Analyst*

Well, you said you had like that big customer resulted in a 20% increase in your adoption rate, but I am not sure what that means.

Alan Urban - *Research Solutions Inc - CFO*

Yes. I believe that when we talk about adoption rate, we are talking about the amount of, I guess the percentage, of customers. The percentage growth in customers is another way we address that.

Walter Ramsley - *Walrus Partners - Analyst*

So basically the potential revenue run rate?

Alan Urban - *Research Solutions Inc - CFO*

No. The actual growth in average Article Galaxy customer. So for the quarter, that went from about 133,000 a year ago to about 163,000 today. I am sorry, scratch that. That's transactions.

Customers went from about 710 to about 811 and that's the growth we are talking about there.

Walter Ramsley - *Walrus Partners - Analyst*

Okay. I see them. Okay. And the stock compensation expense, that really jumped up in the quarter. Can you explain what happened there?

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Yes. We have something a little unusual happen actually and it happened in the fourth quarter and it was one of the main reasons for our increased G&A expenses. And what happened basically is that we have the stock compensation of our directors, basically two years hit in one year. So last year there was no compensation granted to directors and this year we granted a compensation for last year and this year. So it sort of doubled up in one year and that was the main.

Walter Ramsley - *Walrus Partners - Analyst*

Okay. That makes sense. Okay. I get it.

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

I am sorry. Go ahead.

Walter Ramsley - *Walrus Partners - Analyst*

Do you think that like a one-shot deal in the quarter? Or is that going to --?

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Yes. It's a one-shot deal. Basically what happened was, last year was probably smaller than it should have been and this year it was probably bigger than it should have been and future years will be right on track.

Walter Ramsley - *Walrus Partners - Analyst*

Okay. And one last one, the foreign exchange effects during the quarter. Can you explain if that there was on and what they were?

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Yes. When it comes to foreign exchange risk, we actually don't have much. We do not bill customers in Euros. We actually bill customers in dollars. However, some customers like to pay us in Euro. So what will happen is, we will issue the invoice in dollars and then using the spot conversion rate, translate it into Euros and then the customer will go ahead and pay us in 30 days or 45 days or 60 days.

And sometimes there is a difference when they actually pay us in Euros, when we true of the amount, there is either a gain or a loss. Because of the wild volatility of the Euro in past months, we suffered some losses there.

We also have a bank account in Euro. We typically don't keep a lot of money in there, but some times there is some money in there and that was the main reason. But overall we actually don't have a lot of foreign currency risk, especially when it comes to Euro.

We also have expenses in the Mexican Peso. Our Reprints Desk Latin America, our operational back office, all of the expenses there are Mexican Peso. However, that seems to be going in our favor at the moment. And those expenses rally aren't significant. So I assume as we grow and over time the numbers may just get bigger and when they get bigger, we will put a proper hedging policy in place. But for now, they don't appear to be that significant.

Walter Ramsley - *Walrus Partners - Analyst*

Okay. That explains that one. Okay. Thanks a lot. It looks like things are going very well.

Peter Derycz - *Research Solutions Inc - Chairman, CEO*

Yes. Thank you.

Operator

(Operator Instructions) At this time, this concludes our question-and-answer session. I would now like to turn the call back to Mr. Peter Derycz for closing remarks.

Peter Derycz - Research Solutions Inc - Chairman, CEO

Okay. Well, thanks to everyone for joining us on the call today. I would also like to extend a huge thanks to our customers, suppliers and our team who are all critical contributors to our success. Lastly, if we weren't able to address all of your questions on today's call, please feel free to contact us or our Investor Relations firm, Liolios Group. We 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 success 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 the Form 10-K and interim quarterly reports on Form 10-Q.

This 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. This 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 the 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 their reconciliation to the nearest GAAP measures in today's earnings press release, which is also available on the Company's Web site 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 September 16, 2015. Please refer to today's press release for dial-in instructions.

Thank you for joining us today for our presentation. You may now disconnect.



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