

**CONTENTS**

<b>CALL PARTICIPANTS</b>	<b>2</b>
<b>PRESENTATION</b>	<b>3</b>
<b>QUESTION AND ANSWER</b>	<b>6</b>

# Research Solutions, Inc. OTCPK:RSSS

## *FQ2 2018 Earnings Call Transcripts*

Wednesday, February 14, 2018 10:00 PM GMT

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### S&P Capital IQ Estimates

	<b>-FY 2012-</b>
	<b>GUIDANCE</b>
<b>Revenue (mm)</b>	42.00

## Call Participants

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### EXECUTIVES

**Alan Louis Urban**

*CFO, Principal Accounting Officer & Secretary*

**Peter Victor Derycz**

*Founder, CEO, President & Director*

### ANALYSTS

**Peter Rabover**

**Scott Billeadeau**

## Presentation

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### 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 second quarter ended December 31, 2017.

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 the remarks, we will open the call for your questions.

Then before we conclude today's call, I will provide the necessary cautions regarding any forward-looking statements made by management. I will also provide information regarding the company'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'll now 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.

I'll open the call with few brief comments about our business, and then pass the call to Alan to speak about our financial results. Finally, I will return to address other details and our outlook.

Our second quarter showed continued robust revenue growth in our SaaS-based Platforms offering, growing 89% year-over-year and helping support a strong quarter in our Transactions business. In fact, our transactions revenue grew by 9% in our second quarter with 150 basis points of gross margin expansion and 12% growth in total transactions customers. The combination of this healthy customer growth and the proactive measures we put in place last year to improve gross margins continue to have their intended effect.

Version 2.0 of our Article Galaxy Platform went live in December and the early feedback on user experience have been quite positive. We look forward to updating the migration by March and implementing other major framework additions, like self registration, in the next several months. I will have more to say about the Platforms and forthcoming upgrades, but first I'd like to pass the call to Alan to walk to our fiscal Q2 results in detail.

Alan?

### Alan Louis Urban

*CFO, Principal Accounting Officer & Secretary*

Thank you, Peter, and good afternoon, everyone. Jumping right into the results.

Our Platform subscription revenue increased 89% to 413,000, which was driven by a 92% increase in total Platform deployments to 184. This translates into 23 net incremental deployments in Q2. The quarter ended with annual recurring Platform revenue up 89% on a year-over-year basis to \$1.7 million and up 7% sequentially. Please see today's press release for how we define and use annual recurring revenue and other non-GAAP terms.

Transaction revenue was up 9% to \$6.4 million compared to the same year-ago quarter. This was driven by a 12% growth in customer account to 1,044. In addition, the number of corporate customers was up 8% to 816 and academic customers were up 25% to 228. Together, this drove a 6% increase in transaction count to approximately 205,000.

Together, we saw a consolidated revenue growth of 12% to \$6.8 million versus \$6.1 million in the same year-ago quarter.

Moving onto gross margins. Our Platform business saw a gross margin decline by 110 basis points to 78.1%. This decline was driven by the addition of new data sources that further enhance our Platform. While the addition of new data sources increases our cost of revenue in the short term, we believe these investments are necessary to create a highly valued and differentiated offering for our customers. Our target Platform gross margin is in the high 70% to low 80% range.

As Peter mentioned, gross margin our Transactions business was up 150 basis points to 22%. Our ongoing actions to improve margins, including price increases and cost reductions, are a key driver for the year-over-year improvement.

Consolidated gross margin increased 280 basis points to 25.4% compared to the same year-ago quarter due to the margin growth in our Transactions business and a revenue mix shift to a higher margin Platform business. Our total operating expenses were unchanged at \$2.4 million compared to the same year-ago quarter, and aligns with our strategy to optimize our sales resources including the reallocation of expenses and more efficient ways of acquiring customers through content generation and digital and inbound marketing.

Net loss from continuing operations totaled \$700,000 or negative [ \$0.06 ] per share compared to a net loss of \$1.1 million or negative \$0.05 per share in the year-ago quarter. Adjusted EBITDA totaled negative \$300,000 compared to negative \$700,000 in the year-ago quarter. As we have noted today and in prior quarterly results, we have grown our Platform business in our strong clip and believed a significant opportunities remain. Given our momentum and the large opportunities ahead of us, we have decided to be more opportunistic in future growth opportunities if we believe it [ can ] further accelerate customer adoption, even at the expense of being adjusted EBITDA breakeven in fiscal 2019.

Now profitability will certainly remain a focus, but we believe it's prudent to have the flexibility to invest in opportunities that may arise as we look to further our Platform penetration.

Moving on to the balance sheet. Cash and equivalents at December 31, 2017 were \$4.9 million versus \$5.8 million at June 30, 2017. There were no outstanding borrowings under our revolving line of credit. Our balance sheet continues to remain clean with cash and receivables comprising nearly all of our assets and accounts payable, accrued expenses and deferred revenue representing nearly all of our liabilities.

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

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Thanks, Alan. I'd like to spend more time on our Platform business. As mentioned, Version 2.0 went live in December. Some of the features of launch include our customers getting an in depth view of every one of our gadgets, which would help improve the speed of adoption and rollout to intercompany workgroups. It also features more administrator controls, gadget dash boards, instant article ordering, enhanced literature search tool and fullscreen gadgets, all deployed on a new and more scalable computing and data storage backlog.

The first wave of customer migrations have gone smoothly and the feedback have been positive. We have 2 more waves of migration planned that will be completed by the end of March.

Let's complete, this will set the stage for the additional framework improvements, we are calling them Version 2.1 and 2.2, coming in the spring and summer months. Next quarter, we will launch 2.1, which features powerful reference management tools to researchers. These tools will allow users to compile the geographies and list of scientific studies that a user may be interested in, which foster greater collaboration amongst groups and colleagues. And they still combined with other gadgets will also help research accelerate the publishing of their research.

Additionally, they will have a super easy import pictures to improve the connectivity between Article Galaxy and external database of tool researchers use in their daily workflows. [indiscernible] collaboration tool will be built into our system day 1 and is yet another unique differentiator of our cloud-based Platform. Version 2.2 will feature our self-registration capabilities and will go live in early summer. As previously discussed, the power of some self registration will allow more efficient lead generation, which we believe will drive even more deployment and transactions. Versions 2.1 and 2.2 are major framework enhancements.

Within this powerful framework, we are delivering a constant stream of innovation with weekly lunches of new smart Platform apps we call gadgets. The gadget factory is in full swing and is delivering new innovation daily. Our gadget-oriented systems architecture allows us to be super agile in response to customer requests for new functionality. With Article Galaxy 2.0, we are entering an entirely new era of being able to power customer achieve new levels of research addition efficiency.

Now returning to self registration and Version 2.0, with this capability, we are looking to further improve our sales and marketing function. This will include the reorganization of our departments around focused pod. Each pod will have a discrete circle and will measure their productivity and effectiveness based upon the return on each objective range. We believe the segmentation is the best way to measure our efficiency and supports prior comments we've made about optimizing our sales and marketing resources to yield the greatest results.

Looking to the remainder of our year, we began calendar 2018 with a particularly strong January in our Platforms business. And look forward to building upon this momentum as the year unfolds. We expect this will be driven not only by Version 2.1 and 2.2 framework additions, but also with the powerful weekly improvements produced by our gadget factory. And sales and marketing department refining to drive optimum efficiency and investment returns.

With that, I'd now like to turn the call back over to the operator for Q&A. Operator?

## Question and Answer

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### Operator

[Operator Instructions] First question from Peter Rabover from Artko Capital.

### Peter Rabover

First question, do you think your migration to the new product kind of makes customer wait until you are releasing your version before the time?

### Peter Victor Derycz

*Founder, CEO, President & Director*

No, not at all. Not at all. I don't think that will no impact. Not at all.

### Peter Rabover

Okay. And then maybe you guys can elaborate on your, you talked about some potential investments that you may invest in before trying to breakeven. So can you maybe elaborate on the types of message you're thinking about?

### Peter Victor Derycz

*Founder, CEO, President & Director*

Yes. What we're doing is with Version 2.0, we're launching the ability for users to file all on their own, which is a big contrast to what we have going on today. Right now, we strictly do enterprise sales, which means we have a process where customer interested to not talk to sales rep has the contract, has to get sort of implemented on the system and then go live with their users, and it a customer labor-intensive process. We're going to streamline that with Version 2.0 or in any individual or workgroup where can come on, sign up on their own, bring their credit card, agree the terms online and self configure. And so with that arises opportunity to basically generate new demand for our products through marketing. And so we're really looking at new marketing approaches to adapt ourselves to better create an entry customers and self-registration capabilities. Secondly, we talked about, that's what we mean when really talking about being open to ideas, new investments, it's really sort of the marketing front as we roll out Version 2.2 what works, what doesn't work. And we believe we find something that really works, invest in it a little bit more of an accelerated fashion.

### Peter Rabover

Okay. I guess, just to double check what I'm hearing is, you expect to get higher margins from the Version 2.2 because there's less sales [indiscernible]. Do you expect to take those savings and reinvest them into other marketing activity, is that what I'm hearing right?

### Peter Victor Derycz

*Founder, CEO, President & Director*

Yes. With the advent of digital marketing and social marketing, we have a real ability to make metrics-driven investments and how to market and sell. I guess, the marketing you learn and you come run full-page ads in particular journal and magazine. For a few months and then sell what happened in today's digital and social marketing environment, we have such an ability to do testing. And I think when we if we find something that we test that works, we would be foolish not to make additional investments and pursuing, have it working.

### Peter Rabover

Fair enough. And so where do you think we would see those investments going forward? Will that just increase the \$2.4 million run rate let you guys had the last couple of quarters? Or is that more on the gross margin side?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

On just the additional sales and marketing expense.

**Peter Rabover**

Okay. And are we talking just high 6 figures, low 7 figures? What do you think looks like would be?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

We don't know. All we know is that if we make those types of additional investments that they will be sort of numbers driven and results-driven.

**Peter Rabover**

Okay. Sorry, if I keep asking what you mentioned, you have a strong January, if you could may be parsed that out with why you added where the strength in from?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Yes. I think well, obviously, [indiscernible] December, I think December you have an interruption to the holidays and so on. So I think maybe if there's any contract slowness in December, then probably January is a bit of a catch up month. Things were really looking pretty good in January in terms of signed contracts that had effective dates of January, which is when we start recognizing the revenue. And then the pipeline, the sales pipeline in our CRM looks great, and then contract request from sales reps looks strong as well. So going into February, we're feeling pretty good.

**Peter Rabover**

And is at that kind of the same price down between corporate and academic that you've had in the U.S.?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Yes. I say on the Platforms yes, typically it's really corporate. We have a lot of academic editions that I think fall mostly on the transaction side of the business.

**Peter Rabover**

Okay. And then, I think you mentioned price increases on the transaction side, that has that been successful, any loss or demand or has not gone through pretty smoothly?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Yes. I would say we were done with it. I think we started the initial parts of that and we don't want to do sort of across-the-board price increases all at once. So what the contracts we renew and so when once they go for [indiscernible] the customer wait for time we get out over a year so we are so far so good. I think we're the best of what we do any terms of the Transaction business. So there's no reason not to be able to pay more for more value. We do have the best Transaction business out there and then that's increasingly supported by what you do on the Platform sides. Another Platforms more powerful tool just make more sense to pay for value and for us to figure out how to get into exchange.

**Operator**

[Operator Instructions] The next question comes from Scott Bilodeau of Walrus Partners.

**Scott Billeadeau**

Just a couple of things. One, can you talk a little bit about ASP, especially as the Platform business and I don't know if it's C base? And maybe talk a little bit about as you go into the self-sign up, my understanding you kind of do Platforms for large organizations. Will this just be kind of mom-and-pop shops? May be show me in on the difference there. And would it just be kind of a per-seat subscription that they would use in a credit card, kind of paying it monthly until they say no? Or maybe give us a little heads up on what your thinking there.

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Well, right now, our average ASPs are just under \$10,000. And we tend to charge it all at once since the customers sign the contract and invoice it. Going out to, let's say, smaller medium-sized businesses, it's probably happening already. So that's already factored into the Platform price on average. We are getting a lot of contracts, a lot of organizations whose names we haven't heard of before. Of course, we love the big names and the big scientific companies out there as customers, and many large scientific customers are staying with us and we love them. And they're part of our customer base. But as we've been building out the platform, we haven't seen a lot more activity from these small and medium-sized enterprise, which one of the reasons we've been driven to offer self registration as well. So I think what you're going to see from us is that the average sales price will fluctuate up and down a little bit, but you will probably have to add new metrics because when we come up with self registration for individuals, professionals and workgroups, we will be doing not on a fee basis, but I would say user basis. And so we'll probably going to add fewer new metrics to what we're reporting in terms of number of users and so on as well. So the ASP that your seeing before some new additional metrics, we'll be adding on to have more clarity on signing up and what they're paying.

**Scott Billeadeau**

And for the end result, certainly it ASP. They want to get on so that they can do transactions, I mean, certainly is that the game plan? So it's a matter of you got have a balance, what the entry fee is to go to the Platform versus transaction once they're there. What's your thoughts there?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Well, there's a lot of things going on around transactions. So yes, I think the ability to pull out credit cards on one study or one article, that's great and that's transaction. But the matter is workgroups and organizations have a whole lot of workflow issues around these transactions. And so creating list of studies are important in managing, sharing, collaborating. And so we're doing the Platform okay, we understand that people need to buy a transaction to be able to take out up on subject or read about some research. But what else are they doing with their day? What else are they doing with that study? And so we're offering tools in the Platform that will help few more efficient with other parts of their day. So in terms of Platform development, what we're looking at saying, okay, well, we know people, we know all kinds come to the world researchers in the study and that's part of the reason on the platform. But we also know that they have other things going on with their day, and we're looking at those other things are going on with their day, whether they involve studies or ancillary activity and building out a Platform to sort of be there to be a large part of their day.

**Scott Billeadeau**

So some of that just more to grade the stickiness and incremental transaction as opposed to I guess, if there's a you should value add peace, module that you can add to that. What is their strategy for reintroduce this to the Platform, is this something we can get an incremental 100 a month for something like that? Or is it mainly to drive the stickiness of the Platform that you have?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

I think it's both. I think we've seen that as long as we're bringing in more value to the customers they're willing to pay more, so we're always looking to deliver innovation into the platform that will help us



provide more value and in turn be compensated for that. So we'll definitely that. And then stickiness is another big thing for us. With all the new tools and end-user driven gadgets, we will see how end-user are pretty more on data onto our Platform. And once you have data and collaboration going on in the Platform, we'll see a lot more stickiness seeing already, which we already have a negative churn rate. So it's sticky already, but we really making more sticky, which needs in reality making it more useful to end-user around the world.

**Scott Billeadeau**

Okay. Well, I probably have one more question. As you're looking for 2.1, 2.0, any big, is there a big in the Platform everyone's been beating this for a certainty, are there couple of things that have kind of come out from value surveys and hey, we got to solve these 2 things?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

One of them is the revenue management tool that come out with 2.1, that is sort of a big development for us. And we know that all of our customers and users, they use a bunch of record management does and they're looking to consolidate the platforms that they're own. Got to make one, that's very customer-driven development for us. And I think that's one such example. And then I don't think there any other big stones out there but what we're seeing is that within the scientific research community, there are a lot of natures and a lot of niche workflows, and that's why we sort of gadgetized our whole environment as we wanted to be able to deliver innovation to molecular biologists and geneticists and so on, innovation that needs something to them and we do have the gadgets so that molecular below you just does it have to have the gadget on the screen that geneticist have and vice versa.

**Scott Billeadeau**

All right.

**Operator**

There are no more questions at this time. This concludes the question-and-answer session. Before we conclude today's call, I would like to provide Research Solutions safe harbor statement that includes 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 contains 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 in marketing, market acceptance of the company's products and services and the expected continued growth in transaction and Platform deployments that the company will continue to stay a very lean and efficient organization and that the company faces a few barriers in terms of achieving greater global expansion in revenue growth. Such forward-looking statements should not be interpreted as a guarantee of future performance or results and will not necessarily be accurate indications of that times app or by which the performance or those results will be achieved. The forward-looking statements were based on information available at this time.

They are made and our management's [indiscernible] believe that at that time with respect to the 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 cost differences include but are not limited to changes in economic conditions, general competitive factors, acceptance of the company's products in the market, the company success in obtaining new customers and new Platform deployments, the company 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 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 the 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 measure by the SEC. The presentation of this financial information is not intended to be considered in isolation or a substitute for the financial information prepared or presented in accordance with 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 their reconciliation to the nearest GAAP measures in today's earnings press release.

Finally, I'd like to remind everyone that a recording of today's call will be available for replay after 8:00 p.m. Eastern today and through February 28, 2018. Please refer to today's press release for dial in instructions.

Thank you for your joining us for representation. You may now disconnect.

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