

**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

## *FQ1 2018 Earnings Call Transcripts*

Tuesday, November 14, 2017 10:00 PM GMT

---

### S&P Capital IQ Estimates

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

# Call Participants

---

## EXECUTIVES

**Alan Louis Urban**

*CFO, Principal Accounting Officer & Secretary*

**Peter Victor Derycz**

*Founder, CEO, President & Director*

## ANALYSTS

**Peter Rabover**

**Scott Billeadeau**

## Presentation

---

### Operator

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Research Solutions' financial results for its fiscal first quarter ended September 30, 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 their 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 the Investors section of the company's website.

I will now turn the call over to Peter Derycz, Research Solutions President and CEO.

### Peter Victor Derycz

*Founder, CEO, President & Director*

Thank you, operator, and good afternoon to everyone. I'll open the call with a brief state of our business and then pass the call to Alan to speak about our financial results in detail. Finally, I will return to address other details and our outlook.

The momentum of fiscal 2017 has continued into our first quarter of fiscal 2018, with continued strong growth in Platforms supported by a Transactions business that has responded to our margin-enhancing initiatives.

Year-over-year deployments for our cloud-based Platform solution increased 115% to 161% at the end of the quarter, with annual recurring revenue up 112% to \$1.6 million.

In our Transactions business, the proactive measures we are taking to improve revenue and gross margins are continuing to have their intended effect. First quarter Transaction revenue increased 6% year-over-year, with gross margin up 120 basis points to 22.7%. This helps drive a 270 basis point increase in our consolidated gross margin to 25.9%.

We look forward to carrying this momentum into the launch of version 2.0 of our Article Galaxy Platform solution, which is planned to go live in December.

I will have more to say about the launch in my closing remarks. But before commenting further, I'd like to turn the call over to our CFO, Alan Urban, who will walk us through some of the financial details for the quarter. Alan?

### Alan Louis Urban

*CFO, Principal Accounting Officer & Secretary*

Thank you, Peter, and good morning, everyone. First, a reminder that we sold our Reprints and ePrints business on June 30, 2017, and any activity for that business is classified as a discontinued operation.

Now a few comments on our Q1 fiscal year 2018 results compared to the same prior year period. Our Platforms subscription revenue increased 126% to \$388,000, which was driven by a 115% increase in total Platform deployments to 161%. This translates into 21 incremental deployments in Q1.

The quarter ended with annual recurring Platform revenue, up 112% on a year-over-year basis to \$1.6 million and up 16% 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 by 6% to \$6.4 million compared to the same year-ago quarter. This was driven by a 9% growth in total customer count to 1,022. In addition, the number of corporate customers was up 6% to 806 and academic customers were up 25% to 216.

Together, this drove a 7% increase in Transactions to approximately 205,000. Together, these businesses delivered consolidated revenue growth of 9% to \$6.7 million versus \$6.2 million in the same year-ago quarter.

Moving on to gross margins. Our Platform business saw gross margins decline by 420 basis points to 78.4%. 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 creating highly valued and differentiated offering for our customers. Our target gross margin on Platforms should be in the high 70% to low 80% range.

Gross margin in our Transaction business was up by 120 basis points to 22.7%. As mentioned on our third quarter call, we took actions to improve margins, including price increases and cost reductions, and the results of these efforts were a key driver of the year-over-year improvement.

Consolidated gross margin increased 270 basis points to 25.9% compared to the same year-ago quarter due to margin growth in our Transaction business and a revenue mix shift to our higher-margin Platforms business.

Our total operating expenses increased to \$2.6 million compared to \$1.9 million in the same year-ago quarter, driven primarily by planned investments in sales and marketing and technology personnel to support increased Platform sales and deployments.

It is important to note that on a sequential basis, our sales and marketing expenses have declined by approximately \$100,000. This reflects the optimization of our sales resources, including the reallocation or reduction of expenses and more efficient ways of acquiring customers through content generation and digital and inbound marketing.

Net loss from continuing operations totaled \$800,000 or negative \$0.04 per share compared to a net loss of \$500,000 or negative \$0.02 per share in the same year-ago quarter. Adjusted EBITDA totaled negative \$500,000 compared to negative \$400,000 in the year-ago quarter.

On a sequential basis, adjusted EBITDA improved by approximately \$100,000 due to the previously mentioned reduction in sales and marketing expenses. Both net loss and adjusted EBITDA reflect the sales, marketing and personnel investments in our growing Platform business.

As we look forward, we continue to expect to narrow our losses each quarter, working towards adjusted EBITDA breakeven in fiscal 2019 by stabilizing or even reducing operating expenses and continued increasing Platform revenue.

Moving on to the balance sheet. Cash and cash equivalents at September 30, 2017 were \$4.5 million versus \$5.8 million at June 30, 2017. The cash decrease resulted primarily from our net loss and a decrease in accounts payable and accrued expenses. There were no outstanding borrowings under our revolving line of credit, and our balance sheet continues to remain clean with cash and receivables comprising nearly all of our assets and accounts payable and accrued expenses representing nearly all of our liabilities.

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

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Thanks, Alan. So now more details on the progress of our Platforms business. As mentioned in my opening, we left off right where we ended our fiscal year, with continued positive strides in the further development and enhancement of the product. Our customers and prospects have seen major releases of new functionality in the form of more advanced scientific information management tools and corporate scientific data libraries.

The feedback has been very well received, which gives us confidence in our upcoming launch of Article Galaxy 2.0, featuring our gadget store with app-like productivity gadgets for researchers. I'll have more to say about this shortly.

In the meantime, we continue to grow the number of organizations deploying our Platform solution. One such organization worth noting is our agreement with VIVA Academic Library Consortium. VIVA is a consortium of more than 70 nonprofit academic libraries within the Commonwealth of Virginia, including all of Virginia's state-assisted colleges and universities.

In addition to being a great academic reference account, we look forward to delivering the fastest, most cost-effective information delivery possible to their more than 400,000 users.

In addition, as Alan mentioned, more efficient ways at acquiring new customers, such as content generation and digital and inbound marketing, has provided us another sales tool and helped us grow our client base more efficiently.

Finally, our account management group, which is formed to keep existing customers happy, identify new customer needs and introduce the Article Galaxy Platform to customers that can benefit from first-time adoption and new enhancements to renewing customers. Importantly, this internal group has contributed greatly to the overall adoption rate of Platforms inside of our customer base.

As of today, approximately 20% of our existing corporate customers have adopted the paid version of the Article Galaxy Platform.

Now moving on to our major platform upgrade, which we are calling Article Galaxy 2.0. This upgrade is expected to go live in December. Some of the features of the launch we have already discussed, such as customers getting an in-depth view of each and every one of our gadgets, which will help improve the speed of adoption and rollout to intracompany workgroups. Some of the features we haven't discussed include more administrator control, tabbed gadget dashboards, instant article ordering, enhanced literature search tool and full screen gadgets, all deployed on a new and more scalable computing and data storage backbone.

Feed enhancements laid the groundwork for an equally impressive set of enhancements planned for early 2018. Our expanded technology team has definitely brought a lot of innovation to the table, which results in better and more agile development of the product we delivered to our valued customers.

Given this operational progress and sustained financial momentum of our business, we look for fiscal 2018 to be a transformational year in the development of our company and commercialization of our technology.

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

## Question and Answer

---

### Operator

[Operator Instructions] Our first question comes from Scott Billeadeau of Walrus Partners.

### Scott Billeadeau

I missed a little bit of the first part of the call, but -- so I hope you mentioned some of this. Could you maybe give an update on what you're doing on expanding or just leveraging the current go-to-market guys you talked a little bit about at the end of the call, getting some pretty good leverage out of the some of the internal guys? But any strategy to expand as you launch Article Galaxy 2.0? Anything new in terms of go-to-market strategy with that?

### Peter Victor Derycz

*Founder, CEO, President & Director*

Yes, Scott. Yes, absolutely. There's some shifts there. We are shifting from a more of a sales organization-based to more of a marketing organization-based market outreach. And by that, what we're doing is hand in hand with the development of the product, which is getting more end user-oriented, more end user customizable and granular. We're shipping more to marketing programs that will attract end users and have individual end users be sort of our spearhead in the different organizations that we don't do business with the today.

### Scott Billeadeau

Okay. And does that require -- I mean, do you need a different somewhat customer service handling to -- as maybe within the same organization you have, end users that want different views or looks or whatever, gadgets installed? So are you comfortable with being able to handle that load with your current resources at this point?

### Peter Victor Derycz

*Founder, CEO, President & Director*

Yes. We're doing a lot more online than we've ever done before. One of the key aspects of the new platform is the content we're calling the gadget store, which is sort of a catalog with in-depth description, videos and support materials for each and every one of our gadgets, which provide most of the functionality in the platform, and so meaning there's going to be a lot of self-assertive learning and educating going on and sort of premade support materials, basically, with the gadget store. So that's [ 2 ] different iterations and different discussions about that in the next couple of quarters. First version of the gadget store is coming out with Article Galaxy 2.0 as sort of an internal catalog within Article Galaxy. So if you're a customer of ours, you have access to the Gadget Store and could see in-depth descriptions of each and every one of the gadgets. And then over the coming quarters, you'll see what we call an external gadget store emerging, which will be basically a catalog of all the things in our platform for noncustomers alike. So that will allow noncustomers, individual end users, scientists, professors, whoever you are, to really learn in-depth about our platform and not necessarily rely on our sales organization or inferences and meetings to learn about what the platform does.

### Scott Billeadeau

Okay. And have you seen or -- granted you've been really shifting to the Platform business, and do you have any early kind of look at, hey, this is how we drive -- once we get a platform, someone to transfer to the Platform business or to kind of go up the curve, to start flipping the amount, increasing or accelerating the amount of transactions that occur, whether it's same customer, transactions? Or are we just kind of too early to start looking at those numbers?

### Peter Victor Derycz

*Founder, CEO, President & Director*

No, it's definitely -- people adopt the platform because one of the great things about it is it help you organize your access to literature and information and so on. So because of that, people that adopt the platform do end up buying transactions. So that's always going to be there. And I think part of our growth in Transactions have been due to that.

**Operator**

[Operator Instructions] Our next question comes from Peter Rabover of Artko Capital.

**Peter Rabover**

Sorry, I'm outside if there's any background noise. But a couple of questions. I assume when you're selling the platform, you're selling it per seat, in that you're able to sell it to more than one, to a prior organization, is that correct?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Yes, that's correct. I wouldn't call it per seat precisely at this point. We're still tweaking the business model to how we charge. But yes, the larger the organization or the more individual departments in the organization are using it, it's going to generate additional revenue for us. So yes, we can end up in a situation like you mentioned where the same parent company has multiple accounts going, maybe different geographic regions, maybe different departments, wherein one geographic region that just need the system to function is slightly different, one department to another.

**Peter Rabover**

Okay. And then maybe you can talk about your sales productivity. So you guys got 21, I guess, platform sales this quarter. So how many sales people do you guys have? And what do you think their potential is? And I guess, maybe talk a little bit more about your pipeline that you -- how the pipeline developing. So you got 21, but what's your goal, I guess, for the next 12 months? Something along those lines. Have you noticed the lead times getting shorter, et cetera, like whatever you want to discuss on that end I'd be more than happy to get some color.

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Yes. So we don't put -- we opened our forecast like that, but we do have a strong pipeline. We see the momentum continuing. So we don't see any explosions on the horizons from a pipeline perspective. It looks like sales pipeline, the contract pipeline are as expected at this point, so you'll see continued growth there. I did mention, as part of my answer to Scott's question, is the fact that we are getting a little bit more marketing-oriented as the platform is becoming more end user-focused. And so we're actually putting more eggs into the marketing basket than we are in the sales basket. So we are hoping to focus any of our sales reps, if you want to call them sales reps, sales executives, on the larger deals and then try to get to a point where smaller and medium-sized deals are a little bit more systematic. And so there may be platform changes and things like that going on in the future so we can have small and medium-sized organizations do sales sign-up and things like that. So you'll hear news about that going forward as well.

**Peter Rabover**

Where do you think your most successful marketing channels have been so far?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Well, we've been historically and continue to be historically fairly life science-oriented. I think we -- we're weighted in terms of customers and so on in the life sciences. We are doing more. As the platform develops more scientific tools, we are getting more into different scientific groups, groups of specialists or subsets of any area of science. And so we're going to where those users are, basically, and communicating

with them. Sometimes they're part of societies, sometimes they're readers of particular websites or materials. And then as the gadget store is becoming launched, it's going to be indexed in search engines and so on, so people will be finding it that way as well.

### Operator

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 Platform deployments, Transaction count and customers, and the company will continue to stay very lean and efficient organization that the company's Platform and Transaction revenue growth will continue and that the company will achieve breakeven adjusted EBITDA in the near future. Such forward-looking statements should not be interpreted as a guarantee of future performance or results and will not be necessarily accurate indications of the times at or by which the performance of those results will be achieved.

The forward-looking statements are based on information available at this time. They are made and are management's good faith, belief as 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, 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 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 includes 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 a 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 a more detailed discussion about the company's use of non-GAAP measures and their reconciliation of the nearest GAAP measures in today's earnings press release.

Finally, I would like to remind everyone that the recording of today's call will be available for replay after 8 p.m. Eastern today and through November 28, 2017. Please refer to today's press release for dial-in instructions.

Thank you for joining us for the presentation. You may now disconnect your lines.



The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.

The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.

THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.

© 2017 Capital IQ, Inc.