RESEARCH SOLUTIONS

Moderator: Peter Derycz
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Operator: This is conference number 56406036

Good afternoon. Welcome to Research Solutions Fiscal First Quarter 2016 Earnings Results Conference Call. My name is Amanda 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 is being recorded and will be 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: Thank you, operator. Thank you all for joining us today for our fiscal first quarter 2016 earnings conference call. First, I'd like to insert a quick message about the recent events in Europe. We, as the entire world did, watched the events in Paris unfold over the weekend in horror. We quickly surveyed our team in Europe to ensure that they and their families and friends were safe. We're grateful that they are and hopeful because the message we've received from them was a message of no fear, no hate.

With that I'd like to simply state that our plans for Europe have not changed one bit; travel, operationally or otherwise. Our team and customers in Europe have been there for us and we will be there for them, making our own small contribution to international cooperation and solidarity. Back to business here.

During the first quarter, we maintained our Article Galaxy growth trajectory, with revenue transactions and new customer acquisitions up across the board. In fact, transactions were up 22 percent versus the same year-ago quarter, marking our fourth consecutive quarter of more than 20 percent year-over-year transactional growth for Article Galaxy.

However, perhaps one of the most exciting achievements during the quarter was a smooth and efficient complete on-boarding of the major pharma customer that we talked about on our last call. This new pharma customer has now joined our stable and growing base of top customers which includes four out of the top five companies in the world, in terms of R&D performance as ranked by Forbes, as well as six of the top 10 global biotechs and pharmas, as ranked by revenue.

Already in the current quarter, this new pharma customer has risen to become a top five customer in terms of Article Galaxy revenue. The feedback we have been receiving, both directly and indirectly, has been tremendous. They have truly become one of our top product champions in pharma. This has opened the door to many of the top decision makers in their peer group who are not yet Article Galaxy customers.

Also during the first quarter, we made great strides with our new push into academia, realizing a 52 percent increase in academic customer accounts. Academia now represents more than 15 percent of all of our Article Galaxy customer accounts. This performance also reflects that our customer acquisition efforts have maintained a 90 percent plus percent closing rate when our solution is evaluated against our competitors.

Subsequent to the quarter, we hosted our Content Workflow 2015 Event in London and Frankfurt, which was attended by Europe's top research organizations and was a tremendous success. But before I talk more about this, as well as delve a little bit deeper into our operational progress and outlook, I'd like to turn the call over to our CFO, Alan Urban, to take us through the financial details for the quarter. Alan?

Alan Urban: Thank you, Peter, and welcome everyone. Earlier today, we issued a press release with our results for the first fiscal quarter ended September 30, 2015. A copy of the release is available in the investors section of our website at researchsolutions.com.

Starting with our income statement, revenue totaled $8 million in the fiscal first quarter, up 6 percent from the same quarter last year. About 85 percent of the increase is attributable to Article Galaxy and 15 percent attributable to our legacy Reprints and ePrints business.

Article Galaxy generated $5.6 million or 70 percent of our total revenue for the quarter, up 8 percent over the year-ago quarter. The increase was primarily due to the increased number of Article Galaxy transactions from new customers, with overall transactions up 22 percent to 172,000 in the first quarter compared to approximately 141,000 in the same quarter last year.

Active customer accounts also increased 9 percent to 819 in the first quarter versus 752 in the same quarter last year. We define active customer accounts as the sum of the average whole and partial customers for the respective quarter. A whole customer is one with at least one Article Galaxy transaction in every month of the quarter. A partial customer is one with at least one Article Galaxy transaction in one or more months, but not every month of the quarter.

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 repeat 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 in the fiscal first quarter totaled $1.6 million which was up 4 percent versus the same quarter last year. Total gross profit as a percentage of revenue decreased marginally by 50 basis points to 19.4 percent versus 19.9

percent in the year-ago quarter. Gross profit from Article Galaxy which accounts for approximately 85 percent of total gross profit, was $1.3 million for the first fiscal quarter, up 2 percent compared to the year ago quarter.

Article Galaxy gross profit as a percentage of revenue decreased 140 basis points to 23.5 percent in the fiscal first quarter versus 24.9 percent in the same year-ago quarter. The decrease was primarily due to increased content acquisition cost.

Gross profit from our legacy Reprints and ePrints business was up 15 percent with gross profit as a percentage of revenue increasing 100 basis points to 9.6 percent in the first quarter. The increase was primarily due to decreased content acquisition cost.

Total operating expenses were $1.7 million for the first quarter, an increase of $221,000 or 15 percent compared to the year-ago quarter. The increase resulted from increases in compensation and consulting fees, spread across sales and marketing, technology and other G&A departments.

Net loss from continuing operations for the fiscal quarter totaled $179,000 or 1 penny per diluted share. This compares to a net loss of $7,000 or $0.00 per diluted share for the same quarter last year.

In the first quarter, adjusted EBITDA totaled a loss of $6,000 compared to a gain of $192,000 in the year-ago quarter. We define adjusted EBITDA as net income or loss plus interest expense, other income or expenses, foreign currency transaction loss, provision for income taxes, depreciation and amortization, stock-based compensation, foreign currency translation adjustments, and other 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 quarter, we had cash and cash equivalents totaling $1.5 million compared to $1.4 million at our June 30, 2015 fiscal year-end. This increase was primarily due to cash provided by operating activities from continuing operations. As of the quarter-end, there were no outstanding borrowings under our revolving line of credit with Silicon Valley Bank. The amount of the line is the lesser of $4 million or 80 percent of eligible accounts receivable, which equaled approximately $1.6 million available at September 30, 2015. We recently renewed the revolving line of credit to extend through October 2017, with the material terms remaining mostly unchanged.

Our balance sheet continues to remain 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.

We believe that our current cash resources, borrowing availability under our existing line of credit and expected cash flow from operations will be more than sufficient to sustain our operations and growth outlook for the next 12 months and beyond. This completes my financial summary. Peter?

Peter Derycz: Thank you, Alan. Now, from an operational perspective, in the first quarter we officially launched our new Article Galaxy Summer 2015 product release. This release features breakthroughs in workflow efficiencies and bolsters journal content access with in-browser PDF downloads from non-subscribed resources, article rentals, plus other time-saving features for researchers worldwide.

We have continued to listen closely to the requests and evolving needs of our customers and during the quarter, also announced several additional enhancements to the Article Galaxy widget. This included the ability for users to bookmark, as well as securely share and export, general article citations from popular tools including Google Scholar and PubMed. We also rolled out a Library Help Desk add-on solution and introduced copyright reuse right information into the Article Galaxy content access and management solution.

We’ve also added greater granularity and refinement to the search function, and we’re already seeing this and the other new features secure customer wins with large healthcare and research intensive organizations around the world.

In fact, as a bellwether to recording new active Article Galaxy customers, we are seeing a substantial rise in new accounts being set up on our platform versus the same year-ago quarter. This bodes well for our customer acquisition results for the fiscal second quarter. And in addition to presenting an even stronger value proposition to potential customers, we see these new features creating even greater competitive barriers to entry.

We also see these new features and efficiencies translating into higher revenue per customer. This greater revenue will not only result from increased customer usage but also from the monetization of the additional modules and features that an enterprise or academic customers can add to their custom Article Galaxy deployment.

We were proud to demonstrate all these new features and functionalities at our dual Content Workflow 2015 events which we hosted on October 20th in London and October 22nd in Frankfurt. We hadn't hosted one of these industry events since 2010 and it turned out to be a fantastic success. Attendees included corporate information managers, librarians, R&D professionals, pharmaceutical specialists in drug safety and pharmacovigilance, as well as others involved in acquiring and managing content resources inside their enterprise.

Attendees were able to network with their industry peers and hear from the thought leaders on a full range of topics from case studies, strategies, best practices, to the reuse of STM content and integration of workflow management systems. They represented both existing customers and prospects, including some of the largest corporations in the world such as Merck, Bayer, AbbVie, Johnson & Johnson, AstraZeneca, Siemens, Sanofi-Aventis, Airbus, Eli Lilly and Schlumberger, just to mention a few. The event also featured sessions and presentations from other information industry thought leaders including Eduserv, The Copyright Licensing Agency and ProQuest.

Also attending the event was our first senior sales engineer to be based in Europe. This is an important market for us, especially given that now with the on-boarding of a new major pharma who's based in Europe and the fact that approximately 40 percent of Article Galaxy revenue is generated from the European region. Further, the very strong level of interest we receive at these events greatly expanded our sales pipeline. So, we expect our new European sales engineer to be kept very busy.

These international industry events also highlight one of the most important aspects to consider when evaluating our digital business model with Article Galaxy. At its core is a virtual store and cash register that is always open 24 hours a day, seven days a week, and which is accessible from anywhere in the world.

Having a sales engineer based in Europe will help drive new customer wins in the region. However, in terms of servicing these international customers, it will not require any further deployment of offices, employees or other capital resources to the region. These factors demonstrate the tremendous leverage and scalability in our model and why we believe these events were so valuable to our future prospects.

Now, back at home, we wrapped up the first quarter with the appointment of Director John Regazzi as our new Chairman of the Board. John is a widely recognized pioneer of the STM information industry and brings to our Board more than 40 years of corporate, government and academic experience. This includes as former CEO of Elsevier, the world's largest STM publisher and information services provider. In many ways, John's greater commitment to Research Solutions represents a major coup and it's certainly timely, as we begin what we anticipate to be another record year of growth and development. We're pretty excited about this and welcome John to the team.

As we progress to the second quarter in our fiscal year, we will be announcing new product functionality with our Article Galaxy platform and updates to our Article Galaxy rental technology. We expect to maintain our double-digit growth in Article Galaxy transactions. In fact, we tracked 23 percent growth in October as compared to the same year-ago period.

The recently implemented enhancements combined with new future product functionalities, give us confidence that we are taking the necessary operational steps required to deliver growth in 2016, with improved profitability.

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

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press star then one on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key

Our first question comes from Chad Cooper of Digital Offering. Your line is open.

Please check your mute button.

Chad Cooper: Hey guys, congratulations on the quarter. I wonder if you could expand a little bit on the academic pipeline. Obviously you're adding more customers, which is great. But could you anecdotally kind of talk about how the market is shaping up and whether you're starting to see any more opportunity than you have in the past?

Peter Derycz: Yes, definitely. I think the situation in the academic market is - yes, these academic institutions are interested in what we do; they're setting up accounts; they're trying out the system and there's a lot of them. So, we're attending some events and getting the word out from the sales and marketing perspective.

We now have about 126 academic accounts. There is definitely a lot of them trying the system out. That count of customers is up 52 percent year-over-year and our revenue from academic counts is also about double from a year ago. I think the experimentation is well underway and they're trying us out. I think they are liking what they're seeing and we're figuring out how to fit into their workflows and they're trying to figure out how we fit in as well. We're pretty optimistic about the academic market.

Chad Cooper: Is the usage sort of like on the ILL side or is it being sort of tested in different capacity?

Peter Derycz: Yes, I think right now we're probably restricted to the -- what the ILL that you mentioned, the interlibrary loan offices or the ones that are sort of giving us first shot and the first try. So they're trying it out first and then seeing if our solutions really make sense for broader rollout to students and faculty.

Chad Cooper: Got it, thanks. Congrats again on the quarter, guys.

Peter Derycz: No, thank you.

Operator: Thank you. Again, ladies and gentlemen, if you have a question, please press star then one on your touchtone telephone.

Our next question comes from Scott Billeadeau of Walrus Partners. Your line is open.

Scott Billeadeau: Hey guys. Could you walk through, certainly transactions up 22 percent and revs up 8 percent; can you kind of – are ASPs shrinking by 15 percent or kind of walk through that and you kind of mentioned October was up 23 percent, but does that mean 8 percent for revenue as well, maybe kind of walk through what's happened in there?

Alan Urban: Sure, this is Alan. Basically we -- and by the way this trend is sort of a recurring trend that we've seen for many quarters now -- and the discrepancy can be looked at this way. We are actually offering many more transaction types now than we have the past. However, all of those transaction types are not full service charge transaction types. The full serviced -- full article sale would basically be approximately $10 of service fee plus $30 of copyright, so it's a $40 sale. But what we're doing now is we're offering different transaction types for, let's say for a link out, or for an open access link out, and those would maybe cost $3 or $5 or $7, and there would be no associated copyright. So, there isn't one-to-one relationship between the percentage increase in transactions and percentage increase in revenue.

Peter Derycz: Yes, just to add to that anecdotally. For example, one of the transaction types is, if we on-board a new customer and one of their researchers is attempting to buy a piece of information that the customer already owns in their library or catalog, we will actually just link them back to piece of information that they already own and charge them a lower transaction fee for that, that transaction.

Alan Urban: So, if I can just add Peter, I think the transaction count is very important because it actually shows sort of the stickiness of our system, of our customer's use of our system. Even though we may not be receiving full revenue on every transaction, they're putting a lot of transactions through and they're depending on our system as a platform which is important to us.

Scott Billeadeau: OK. Now, given like you say the $3, $5, $7 transactions those really -- if they don't have kind of the content fee, shouldn't gross margins be going up then with those transactions? Why would gross margins be down?

Alan Urban: Yes, that was just an example. Some of those may actually be a dollar, so those were basically examples. We have a varying amount of fees.

Scott Billeadeau: OK. But those, so on a $3 or $5 or $7 fee, is the gross margin different because I understand the $10 service and the $30, so kind of so you only get -- you get $10 out of the $40 kind of to you. But would, so the gross margins on the $3 and $5 and $7 or $1 ones, those are still in -- must be still low or mid 20s or low 20s.

Alan Urban: No, those would actually -- you're absolutely correct that those, even though the revenue collected is smaller, the margin would actually be higher on those.

Scott Billeadeau: So that's why I am confused as to why that made up obviously more transactions but the gross margin went down? How does that happen?

Alan Urban: Well, if you look at a full service transaction which is about $10 in service fee, plus we're collecting about 15 percent of the copyright which is an additional - on $30 would be additional 4.50, so see, that's about $15. So, if you do the math, you will see that it's tough to get $15 when you're doing a $1 or $2 transaction.

Scott Billeadeau: Right. No, I am just saying on the gross margins because -- is the gross margin on your full transactions then going down on a year-over-year basis?

Alan Urban: Well, for the quarter it did.

Scott Billeadeau: OK.

Alan Urban: For all transactions for the quarter, including full and partial. Yes, it went down I believe 1.4 percent from 24.2 percent... 3.5 percent correct.

Scott Billeadeau: Right. And that's what I was, I guess that's why I was -- the question I was asking was that you have a lot more $1 and $3 and $5 transactions, which are higher gross margins than a year ago but yet gross margins went down. So, that must mean the full fee margin went down. So, is that right, it went down quite a bit.

(Crosstalk)

Scott Billeadeau: … make up that loss of $4 on other transactions.

Alan Urban: Right. So you're saying if you exclude the small dollar transactions and you only look at the large dollar, the full service transactions or the $40 transactions…

Scott Billeadeau: Yes, like you had before, the idea is that's basically what you had a year ago in the quarter, right?

Alan Urban: OK, got it. So if you compare apples-to-apples and look at those two transactions, for the quarter we were down on those transactions. If you look at the mix of service fee as a percentage of total revenue and copyright as a percentage of total revenue, that mix changed a bit and our margin did decrease there.

Scott Billeadeau: OK, because is that…

Alan Urban: However, I wouldn't consider that -- look we have different -- every quarter is we have a different mix of publishers in each quarter that makes up the transactions for each quarter. Our discount on these publishers varies. So I don't know if that's necessarily a full blown trend, but the jury is still out on that and we'll still analyze the data on next quarter and give you update on that.

Scott Billeadeau: On an on-going basis, the idea that if there is more of these other transaction types that you're now capable of providing, should there be a gross margin uptick going forward as -- or am I -- is that a fair assumption or it's just going to be a mix and whatever happens on the full, granted that a full transaction is 10 times the revenue of these little ones or more and it's just the matter of what the mix is?

Alan Urban: Well, I actually think the biggest potential for gross margin increase are the platform sales and we're doing more and more of those. Again, they're still in the mid-six figures, but when you talk about potential gross margin betterments, that's really the big lever.

Scott Billeadeau: OK. All right. I think that's all I got, thanks.

Alan Urban: All right, thank you.

Operator: Thank you. Our next question comes from George Melas of MKH Management. Your line is open.

George Melas: Thank you. I just want to have a follow-up question on the previous caller and then a couple of small questions. Just on what you guys said at the end, platform sales are really the big lever on the gross margins. Can you elaborate and help me understand that a little bit better?

Peter Derycz: Yes, when we talk about the quantity of transactions on the platform and having our customers use our platform for more types of transactions and so on, it's a measure of them relying on the platform itself as a vehicle that delivers value to them. What we're seeing is that as we add modules and capabilities to Article Galaxy that Article Galaxy is a platform itself is starting to be seen as valuable. So, we're starting to charge platform fees for the platform, in addition to any other transactions that they may incur on the platform.

George Melas: And those platform fees, are they sort of a fixed fee or are they a variable fee based on the -- is it an add-on to the transaction fee, how do you charge that? If you don't want to say, I understand but …

Peter Derycz: It's a basic platform fee that's an annual fee that's recurring every year.

George Melas: OK.

Alan Urban: And that fee would be in addition to the transactional fee. So for example, if someone orders a thousand transactions a month, they would still have to pay for those transactions, granted the service charge may be slightly lower. However, in addition to paying for those transactions, the customer would have to pay for an annual license fee for the use of our platform. That's obviously a very high margin sale. Now, we don't do that many of them, but we're doing more and more and the number's in the mid-six figures. We feel that's where the big potential is.

George Melas: Great, great. And is this there -- that probably represents like a small percentage of your total. Is it like 2 percent or 3 percent, is it 5 percent of sales.

Alan Urban: Oh no, not even. I think they're only about 20 or so, maybe 25 customers that we sell the platform to. But obviously the potential is large there.

Peter Derycz: And that's driving our product development initiatives.

George Melas: OK, great. On that large pharma that you on-boarded this quarter, two quick questions there. Did they contribute revenue to the quarter and what were they doing before they on-boarded the platform and are they using just you, or they've using you and a number of other providers?

Peter Derycz: Yes, they were a small contributor to the quarter because we had completed the on-boarding towards the tail-end of the quarter. For the first quarter, we don't see them fully but we will see them fully in the second quarter. What they were doing before, they were using a competitor's tool for this and they basically put out an RFP and we went through a multi-month RFP process with them and won that RFP. We tend to win RFPs when we go head-to-head against any competitor about 9 out of 10 times. That's sort of how we came in contact with the customers through an RFP process.

Any large R&D based organization such as this one, does buy information from a variety of sources. But we're one of the key ones and they do buy financial data, they buy other types of data, they buy data directly from publishers and so on. We're just one of their key suppliers now and take probably a noticeable chunk of the information budget there.

George Melas: But on the STM side, do they use just you or they use other competitors?

Peter Derycz: That's on the scientific, technical and medical side?

George Melas: Yes, yes.

Peter Derycz: Yes, so primarily use us for managing all the transactions, managing the user access, managing the reporting, the portal and so on. They do buy a subscription-based information from some of the large scientific publishers as well.

George Melas: OK, got it. And then one quick last question. Your active number of customers sequentially went up, but it seems like it went up on the academic side but on the corporate side it seems like it went down very modestly. Is there a little story behind that?

Alan Urban: Yes, if you look at the count versus prior-year same quarter, our academics went from 83 to a 126, it's an increase of 43 percent or 52 percent. Our corporates went up from 752 to 819, it's an increase of 67. So actually we had 67 more active customers and that's a 9 percent increase. So, it's actually a bigger increase in -- if you look at customers, it's actually 50 times greater than our academic customer increase.

Yes, the percentage is much smaller because we have so many -- almost all our accounts are corporate accounts. So percentage wise it was only a 9 percent increase. That numbers look a little misleading I guess if you just look at the percentages.

George Melas: But sequentially, it seems like the corporate accounts went down.

Alan Urban: Oh, sequentially, OK. I'm looking at quarter-over-quarter over same year, sorry prior-year same quarter. We do have some seasonality and that had something to do with it.

George Melas: OK.

Alan Urban: So when I do my comparisons, we don't like to really compare to prior quarter because of seasonality, the amount of business days in the U.S. and Europe; it affects our number. So, we'd rather look at prior year.

George Melas: OK, understood. Thank you very much for taking my questions.

Operator: At this time, this includes our question-and-answer session. I would now like to the turn call back to Mr. Peter Derycz for his closing remarks.

Peter Derycz: All right. Well, thanks everyone for joining us on our call today. I would like to also extend a huge thanks to our customers, suppliers and our team in the Americas and Europe, 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, 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 measures. Examples of forward-looking statements on this conference include statements related to our new strategic focus, product verticals, anticipated revenue and profitability.

Such matters involve risks 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 other 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 quarterly reports on Form 10-Q. The Company assumes no obligation to update 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 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 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 23, 2015. Please refer to today's press release for dial-in instructions. Thank you for joining us today for our presentation.

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