Paysign Inc
First Quarter 2019 Earnings Call
May-7-2019
Confirmation #13690505

Operator: Greetings and welcome to the Paysign Inc. First Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded.

This presentation may include forward looking statements, to the extent that the information presented in this presentation discusses financial projections, information, and expectations about the company's business plans, results of operations, returns on equity, markets, or otherwise make statements about future events. Such statements are forward looking. Such forward looking statements can be identified by the use of words such as should, may, intends, anticipates, believes, estimates, projects, forecasts, expects, plans, or proposes. Although the company believes that the expectations reflected in these forward looking statements are based on reasonable assumption, there are a number of risks and uncertainties that could cause actual results to differ materially from such forward looking statements. You are urged to carefully review and consider any cautionary statements and other disclosures, including the statements made under the heading Risk Factors and elsewhere in our 2018 Form 10-K.

Forward looking statements speak only as of the date of the document in which they are contained, and the company does not undertake any duty to update any forward looking statements, except as may be required by law. This presentation also includes adjusted EBITDA and non-GAAP financial measure that is not prepared in accordance with nor an alternative to financial measures prepared in accordance with U.S. Generally Accepted Accounting Principles, GAAP. In addition, adjusted EBITDA is not based on any standardized methodology prescribed by GAAP and is not necessarily comparable to similarly titled measures presented by other companies. It's now my pleasure to introduce your host, Mark Newcomer, CEO for Paysign. Please go ahead, sir.

Mark Newcomer: Thank you, Kevin, and good afternoon, everyone. On behalf of Paysign, I'd like to welcome you to our first quarter earnings call. I'm Mark Newcomer, Chief Executive Officer at Paysign Incorporated. I'll provide a brief overview of some of the highlights for the first quarter, touch on strategy, and reinforce our outlook for the remainder of the year.

Following my remarks, I'll turn it over to our Chief Financial Officer, Mark Attinger, to take us through the first quarter results. Following Mark's review, we will then field your questions.

Some of you may be new to following our company. Briefly, the company was founded in 2001. Paysign is both a vertically integrated processor and a pre-paid card program manager. We develop customized and innovative payment solutions in support of corporate, consumer, and government programs. To learn more about our history and the services we provide and to review our most recent investor presentation, you may want to visit the investor's section of our website at www.paysign.com. Overall, I'm very pleased with our financial results and our continued ability to execute both operationally and technologically. These are key differentiators for our company that enable us to affectively retain and grow our existing client programs and secure new business.

Also, I'm sure that you are all aware of our recent company name and ticker symbol change. Effected April 30, 3PEA International Inc. became Paysign Inc., and our stock began trading under our new NASDAQ ticker symbol PAYS. The new corporate name was chosen to better align the company with our Paysign brand of pre-paid cards and virtual payment solutions. Paysign better reflects the identity, vision, and direction of our company as a pre-paid payment solution provider. Additionally, the Paysign name better enables us to clearly convey the value proposition of our brand in both our commercial and consumer pre-paid card offerings.

Turning to our very strong fist quarter results, in summary, revenues were a record 7.3 million, an increase of 55% compared to the prior year. Net income was .9 million, up 111%, and adjusted EBITDA was 1.7 million, an increase of 121% year-over-year. We've continued to experience excellent growth in our existing programs and are now seeing growth from newly added clients in the pharmaceutical industry. We expect to continue strong growth and have kept our full year guidance of revenues of 38 to 40 million and adjusted EBITDA of 10 to 12 million unchanged.

Strategically, as I stated during our previous call, we will continue to broaden and diversify our market focus on our pre-paid card programs and will seek to introduce new products. We continue to prepare for the launch of our Paysign premier card, which is excepted in Q2. Just to pre-empt the question, there is nothing new to report on the M&A front. As I've shared previously, we continue to pursue acquisition candidates that have long stemmed reputations, corporate culture of innovation, and have demonstrated growth and profitability. At this time, I'd like to turn it over to Mark to take us through the numbers.

Mark Attinger: Excellent. Thank you, Mark. So, I'll take us through the first quarter topline numbers and provide some variance commentary. I'll then add to Mark's comments pertaining to 2019. Before I begin, unless stated otherwise, any reference to 2018 or prior year pertains specifically to the first quarter of 2018. So, revenue for the quarter ended March 31, 2019, was 2,257,290, an increase of 55.2% compared to 4,676,320 the prior year, better than our expectations. This increase in revenue is attributable to continued client growth in the non-pharma industries and growth in new pharma clients onboarded in the second half of 2018 and early 2019.

Gross profit improved to 68.--excuse me, improved 68.3% to 3.8 million, or 52%, of revenues compared to 2.2 million and 48% of revenues in 2018. The 405 basis point improvement resulted primarily from a higher gross margin percent, contributed from the mix of new pharma business. Total operating expenses were 3.0 million compared to 1.8 million. The increase consists primarily of 614,000 in incremental salaries and benefits and 509,000 increase in stock base compensation, both primarily driven by investments in new personnel the second half of 2018. However, as expected, we are beginning to see improved operating leverage as SG&A increase just 113,000, or 4.4%, compared to fourth quarter 2018.

As you may recall from the earnings call we recently did for year end, we do expect interest income for the full year to be an excessive 400,000, resulting from higher cash balances. For the first quarter, benefitting from an increase of 19.5 million in consolidated cash, interest income was 119,000 versus just 20,000 the prior year. Net income was 871,671, an increase of 111.3%, compared to 412,548 the prior year, and both the fully diluted and basic earnings per share were $0.02 compared to $0.01 the prior year.

Non-GAAP adjusted EBITDA was 1,717,479, an increase of 121.5%, compared to 775,387 the prior year, and furthermore, the adjusted EBITDA margin improved nicely to 23.7%, up 708 basis points from just 16.6% in Q1 2018. Non-GAAP EPS was $0.04 versus $0.02 the prior year. We loaded 191 million to the card for the quarter, and that's in dollars, versus 127 million in 2018. Our revenue conversion rate of gross dollar volume loaded on cards for the quarter was 3.79%, or 379 BPS, versus 3.68%, or 368 basis points the prior year.

From a balance sheet perspective, consolidated cash increased 61%, or 19.5 million, to 51.1 million compared to 31.7 million reflected just three months previously at year end. Working capital, current assets less current liabilities, increased to 7.2 million from 6.0 million at year end, due to increased AR from higher client billings and an increase in restricted cash partially offset by a smaller increase in the card funding liability. Our liquidity, as measured by an adjusted current ratio, excluding restricted cash and cardholder funds from both sides of the balance sheet, respectively, was 12.0, up from 5.4 at year end. And finally, there remains no debt on the balance sheet.

Looking forward, as Mark mentioned, there are no changes to our guidance at this time. As we continue to execute against our operating plan, we expect to see improved gross margins and operating leverage, resulting in higher net and adjusted EBITDA margins. I think that's it for now. At this time, I'll turn it back over to the moderator, Kevin, to begin a question-and-answer session. Thank you.

Operator: Thank you. We will now be conducting a question-and-answer session. If you'd like to be placed in the question queue, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, that is star one to be placed in the question queue. One moment, please, while we pull for questions. Our first question for today's coming from Austin Moldow from Canaccord Genuity. Your line is now live. Hello, Austin. Perhaps your phone is on mute. Please pick up your handset. Your line is now live.

Austin Moldow: Yep, you got it. Thank you for the guidance. So, thanks for taking my questions and congrats on the quarter. I wanted to ask about revenue. So, revenue growth accelerated this quarter from Q4 '18. I'm wondering if you can give some color on how much pharma--the pharma business contributed to that acceleration?

Mark Attinger: Yeah, great question. We won't isolate it on a specific quarter. It did contribute close to 15%, and we do expect that pharma, on a full year basis, will probably represent about 20% of our guidance for full year revenue.

Austin Moldow: Got it. That's very helpful. And I also wanted to ask about expense leverage. What are your primary--what are the primary areas you see that you will be investing in this year, and where might that, maybe, margin vary from where you’re currently guiding to?

Mark Attinger: Yeah, it's a good question. So--and we touched on this a little bit in the prior call. We do make investments in software and technology. So, both on the fixed asset as well as the intangible asset side, roughly 2.25 million to 2.5 million would be our investments we expect for the year. And so, from an operating expense standpoint, you'll of course see that growing at a slower rate than it did last year, and, therefore, representing a smaller percentage of revenues, if you will, generating higher EBITDA margins.

Austin Moldow: Got it. And my last question is on the plasma business. So, I think you said your share of the plasma market was 33% in 2018. Any update to that now or maybe where you think it might be at the end of 2019?

Mark Attinger: Yes, it's a good question and one that we generally don't quote specifically. As we know, the plasma market--and as it's well documented, continues to expand at about 10% per year, and we are growing at a faster rate than that. So, that does imply we're picking up a little bit of market share, but we don't forecast a specific full year percent that will end at.

Austin Moldow: Okay. Thanks for taking all my questions.

Operator: Thank you. Our next question today's coming from William Gibson from ROTH Capital Partners. Your line is now live.

William Gibson: Thank you. Mark, you mentioned introducing a premier card, I believe this quarter. What's different about that versus what you already have?

Mark Newcomer: Basically, the cards that we currently offer are general corporate spend cards, typically--more of distribution type cards. What's a little bit different about the premier card is that it's more of a full service card account--debit account. So, we'll offer you direct deposits, and we'll offer you remote deposit capture, offer you bill pay, offer several other features that are more in line with, traditionally, what you would see out there under the net spend and green dot offerings.

William Gibson: Got it. Thank you.

Mark Newcomer: You're welcome.

Operator: Thank you. As a reminder, ladies and gentlemen, that is star one to be placed in the question queue. One moment, please, while we pull for further questions. If there are no further questions at this time, I'd like to turn the floor back over to management for any further or closing comments.

Mark Attinger: Yeah, so, we really appreciate the opportunity to convey a very strong quarter of results. We're very much focused on execution and growing the topline and delivering on what we've guided or better. So, we thank you for listening.

Mark Newcomer: Thanks, everyone. Appreciate it.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.