Incomm
PaySign, Inc. Second Quarter 2019 Earnings Conference Call
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Moderator: Greetings and welcome to the PaySign, Inc. Second Quarter 2019 Earning 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-0 on your telephone keypad. As a reminder, this conference is being recorded.

This presentation may include forward-looking statements to the extent of the information presented in this presentation discusses financial projections, information, or expectations about the company's business plans, results of operations, returns on equity, markets, or otherwise makes statements about future events. Such statements are forward-looking. Such forward-looking statements could be identified by the use of words such as should, may, and tends, anticipates, believes, estimates, projects, forecasts, expects, plans, and proposes.

Although the company believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions, 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 are 2018 Form 10K. 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 if maybe required by law.

This presentation also includes adjusted Ebitda, a non-GAAP financial measure that is not prepared in accordance with nor in 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. A reconciliation of these measures to the most direct comparable GAAP measure is included in the appendix of the presentation. It is now my pleasure to introduce CEO Mark Newcomer. Please go ahead, sir.

Mark Newcomer: Thank you, and good morning, everyone. On behalf of PaySign, I'd like to welcome you to our second quarter 2019 earnings call. I'm Mark Newcomer, Chief Executive

Officer here at PaySign, Inc. I will provide a brief review of the some of the highlights for the second quarter and will reinforce our strategic direction. Following my remarks, I'll turn it over to our Chief Financial Officer, Mark Attinger, who will take us through the second quarter results. Following Mark's review, we will then field your questions. For those of you that are new to our story, PaySign is both a vertically integrated payment 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 a copy of our most recent investor presentation, you may want to visit the investor section of our website at www.paysign.com. We are very pleased with our second quarter results, as both revenue and profits have reached record levels as we continue forward with our growth strategy. Our ability to design, implement, and manage large-scale customized programs remains a key differentiator for the company and enables us to effectively retain and grow our existing client programs and secure new business.

In summary, revenues were a record $8.6 million, an increase of 58% compared to the prior year. Net income was $1.7 million, also record quarter, representing an increase of 138%. Adjusted Ebitda was $2.6 million, representing an increase of 123%. We continue to experience excellent growth in-- in our existing client programs and from new programs on-boarded in

2018 and Q1 of 2019. We expect to continue to experience strong growth, improving margins, and operational performance for the balance of the year and on into 2020.

There no changes to our financial guidance, which has been previously communicated for 2019 as revenues of $38 to $40 million and adjusted Ebitda of $10 to $12 million. Strategically and consistently with our prior communications, we will continue to broaden and diversify our market focus for our prepaid card programs and will seek to introduce new products. With respect to PaySign Premier Card, we are wrapping up a successful internal pilot and preparing to go live with the first of several existing clients that have expressed interest in the product.

You may have noticed that we've enlisted in some new leadership talents, including the hiring of an experienced executive --executive, Matt Lanford, as our Chief Product Officer. We've also added some very talented and experienced individuals to our business development and technical teams. They are important and very purposeful-- these are important and very purposeful steps in our journey to building a leading business model and set of world class capabilities in the payment space and beyond. Lastly, we continue to pursue suitable acquisition candidates that have demonstrated growth and profitability. At this time, I'd like to turn it over to Mark, our CFO, to take us through in a little more detail.

Mark Attinger: Thanks, Mark. So, I will take us through the second quarter and year-to-date top line numbers and provide some variance commentary. As I stated last quarter, references to year-on-year improvements or percentage increases, unless stated otherwise, does refer to the second quarter ending June 30th, 2019, as compared to second quarter 2018. So, we'll jump into it.

Revenue the quarter ending June 30th, 2019 was $8,631,271, an increase of 58.2% compared to $5,460,723. This increase in revenue was attributable to continued growth in our existing clients and from the maturation of new business secured in both the second half of 2018 and early 2019. Revenue for the first half of 2019 was $15,893,561, an increase of 56.8% compared to $10,137,042. Gross profit increased 92.3% to $5.0 million or 58.3% of revenues compared to $2.6 million and 48.0% of revenues in 2018. This 1,036 basis-point improvement resulted primarily from favorable client and industry mix, and a continued optimization of our network costs.

The operating expenses were $3.4 million, compared to $1.9 million. The year-on-year increase consisted primarily of $0.9 million in incremental salaries and benefits, and $0.4 million as an increase in stock-based compensation, both primarily driven by investments in new personnel the second half of 2018. However, as expected, we are continuing to see improved operating leverage as opex increased just 17.5%, compared to fourth quarter 2018. Similarly, opex as a percentage of revenue decreased 240 basis-points compared to the prior quarter. Benefiting from consolidated cash, a balance of $48.9 million. Interest income was $132,000, compared to just $33,000 the prior year.

Net income for the second quarter ended June 30th, 2019 with $1,738,791, or four cents per basic share, an increase of 137.5% compared to $732,056, or two cents per basic share the prior year. For the first half of 2019, net income was $2,610,462, or six cents basic share, an increase of 128.1% compared to $1,144,563, or three cents per basic share the prior year. The first half fully diluted earnings per share was five cents, versus two cents the same prior year-- the same period prior year.

Non-GAAP adjusted Ebitda was $2,593,675, or five cents per basic share, an increase of 123.3% compared to $1,161,769, or three cents per basic share the prior year. Furthermore, the adjusted Ebitda margin improved to 30.0%, up 876 basis-points from 21.3% in the second quarter of 2018. Non-GAAP earnings per share was four cents versus two cents the prior-year, and first half non-GAAP adjusted Ebitda was $4,311,154, or nine cents per basic share, an increase of 122.6% compared to the $1,936,609, or four cents per basic share the same six-month period the prior year.

We loaded $205 million dollars to the card for the quarter, versus $149 million the same period the prior-year, and our revenue conversion rate of gross dollar-volume loaded on cards was $4.21-- excuse me, 4.21% or 421 BPS, compared to 3.66% or 355 BPS the prior year. From a balance sheet perspective, consolidated cash has increased 54% or $17.2 million to $48.9

million, compared to $31.7 million at year-end 2018. Restricted cash was $42.6 million, versus $26.0 million in December 2018.

Please note, restricted cash represents both dollars loaded to card and dollars to be loaded at a point in time. Clients provide funds at various points in time, and by one month to as many as six months in advance. Furthermore, not all products generating revenue in 2019 will require cash to be loaded to the card, which has typically been the case in our prepaid card business.
Working capital, current assets less current liabilities, increased to $9.5 million from $5.9 at year end, due to increased consolidated cash, increased accounts receivable from higher client billings, and decreases in accounts payable, partially offset by smaller increases in the card funding liability. Our liquidity, as measured by adjusted current ratio excluding restricted cash and cardholder fronts from both sides of the balance sheet, respectively, was $8.2, up from $5.4 at year-end. And finally, there remains no debt on the balance sheet.

As we continue to execute against our operating plan in the second half of 2019, we expect to see continued increase in revenues. We also expect on average similar gross margins to those experienced this quarter. And lastly, we anticipate further improvements to our operating leverage, and therefore, higher net income and adjusted Ebitda margins. I think that's about it for my remarks. Thank goodness. At this time, I'll turn it back over to our moderator, Kevin, to begin a question and answer session. Thank you.

Moderator: Thank you. We'll 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 star-one. One moment please while we pull for questions. Our first question today is coming from Austin Moldow from Canaccord Genuity. Your line is now live.

Question: Hi. Thanks for taking my question and congrats on the-- on the nice quarter. My first one is one the pharma business, wondering if you can provide how much pharma revenue contributed to the quarter in-- in percent terms or something else. And if you could just give more color on-- on what materialized in the pharma segment this quarter and what kind of traction you're seeing. Maybe if you could talk about success you're having with channel partners. Thank you.

Mark Attinger: Yeah, great question. Austin, thank you for that. So, for the quarter, pharma represented approximately 20% of our revenue, up from 15% the prior quarter. And in the third quarter of last year, and in the first quarter of this year, we implemented several new pharma client programs and we've seen a maturation of those. We are preparing to onboard additional programs as well and we're seeing good success in our channel partner relationships and in overall, our execution really on plan as we expected.

Question: Got it. And my second question is on the premier card. You mentioned you're doing an internal test, but you have-- you have some interest from-- from other customers. Can you talk about maybe the-- the potential scale of what could be in your-- your pipeline for when you roll that out? And maybe if you could update on-- on timing of a potential launch?

Mark Attinger: Yeah. I think we-- I believe we included a little bit of that in the press release, and I'll just reiterate that aspect of it and then-- and then talk about kind of directional. So, we have a commitment from one client that we are preparing to implement by the end of August, probably the latest would be early part of September, but we do expect to go live by the end of August.

We have been piloting that program to date and are very pleased with how it's progressing. We have several clients that are interested in being able to offer this product to their customers as well and we're continuing to evaluate that. So, one of the advantages we have, is we have over 2.5 million cardholders on our platform.

And therefore, they are a-- a captive audience. A portion of those are active cardholders and a portion of those are historical cardholders on our platform. So, it's important that we continue to learn from the acceptance rate and the performance of those before we make any further comments about the growth, but we do expect this to be a material contributor to our earnings in 2020.

Question: Great.

Mark Attinger: And just-- just one more comment, Austin, as we've talked about before and shared, we have not included any of the PaySign Premier in our projections for this year.

Question: Understood. And my final question, if I could, I'd love to ask about the plasma business in terms of the number of plasma centers you now have on your network. I know you have, in the past, provided a penetration rate, which I think was 33% last time you updated it. I'm wondering if you could share any progress on flipping new centers over to your network and what kind of success you're seeing in maybe winning them from other card programs they're currently on.

Mark Attinger: Yeah-- we won't comment in detail on that, but I can tell you we're having success and we're continuing to grow in absolute dollars as well as in market share.

Question: Great. Thanks for taking my questions.

Moderator: Thanks. As a reminder, that's star-one to be placed into the question queue. Our next question is coming from John Hickman (SP) from (INAUDIBLE), your line is now live.

Question: Hi. Thanks for taking my questions. Nice quarter. Could you elaborate a little bit more on the personnel that you're adding to the platform? And you went through that pretty fast, if you could, would you kind of go through that again for me?

Mark Attinger: Hey, John. So, as our CEO pointed out, we-- we did bring on Matt Lanford as a Chief Product Officer, but with respect to technologies, we have a core processing platform, and a well-built team, and set of capabilities around that, and have continued to add to that infrastructure and to that development effort. We've also continued to add development resources for mobile application development and for some of the new products that we're implementing just to round out the team. So, nothing beyond continued strengthening of development and infrastructure resources to enable our-- our growth.

Mark Newcomer: And that's both on the business development and the technology teams.

Mark Attinger: Yeah. Good point. So, as Mark stated, hopefully you heard that. So, that's biz dev as well as the technologies.

Question: So, the previous questioner asked most of my questions and answered them and thank you for that. Could you-- could you just like-- I don't know who wants to answer this, but like what's the-- is there-- is there something that is a negating factor that you're most concerned about right now?

Mark Attinger: That's a great question. I mean, it's always about execution and it's always about continuing to implement as has been done for many quarters in the last number of years on our growth trajectory. So, we-- we have been successful in securing business and successful in implementing and retaining business and we will continue to work hard to do that each and every quarter, but there's not something in particular that keeps us up at night, if that's your question.

Question: Okay, and then one last one for me. So, you're-- well, on an organic basis, you're-- you seem to do be executing quite well. Could you make any comments about growth? Maybe tuck-in acquisitions or whatever other kind of acquisitions? Is that on your radar?

Mark Attinger: Yeah. So, as-- as our CEO has stated in prior earnings releases as well as our-- our calls, we are continuing to evaluate opportunities and we will-- we will seek to find companies that are a good, strategic fit that we can bring value to and maybe round out some of our product offerings and that's accretive to our shareholders. So, we're going to be very selective, but that's been an ongoing process that was communicated as recently as-- or I should say, as long ago as fourth quarter of last year and has been reiterated on each of the-- the calls. And that's-- you know, to address it head on, that's purposely why the shelf offering is out there, so we can be ready when the opportunity presents itself.

Question: Okay. Thank you.

Moderator: Thank you. As a reminder, if you'd like to be placed in the question queue, please press star-one at this time. One moment please while we pull for further questions. We have reached the end of our question and answer session. I'd like to turn the floor back over to management for any further or closing comments.

Mark Newcomer: Yeah-- once again, we'd like to thank everyone for listening to our call, for following us, and we are very pleased with how this quarter went. Solid revenue growth, gross margins, and net margins. And we continue to execute on plan for the year. So, thank you and have a great rest of your day.

Moderator: 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.