SurgePays (SURG) / 13 May 25 / 2025 Q1 Earnings call transcript

Company Profile

Mike McCormack	executive
Kevin Cox	executive
Anthony Evers	executive
Kunal Madhukar	analyst
Edward Woo	analyst

Operator

Greetings. Welcome to SurgePays First Quarter 2025 Earnings Conference Call. [Operator Instructions] Please note, this conference is being recorded. I will now turn the conference over to your host, Mike McCormack, Managing Director of Investor Relations at SurgePays.

You may begin.

Mike McCormack

Thank you, operator, and good afternoon, everyone. Welcome to the SurgePays 2025 First Quarter Financial Results Conference Call. Today's date is May 13, 2025. And on the call today from the company are Brian Cox, President and CEO; and Tony Evers, CFO.

Before we begin, I'd like to remind everyone that this call may contain forward-looking statements as they are defined under the Private Securities Litigation Reform Act of 1995. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements.

For a discussion of such risks and uncertainties, please see SurgePays' most recent filings with the SEC. All forward-looking statements made today reflect our current expectations only, and we undertake no obligation to update any statement to reflect the events that occur after this call. Copies of today's press release are accessible on SurgePays' Investor Relations website, ir.surgepays.com.

In addition, SurgePays' Form 10-Q for the quarter ended March 31, 2025, will also be available on SurgePays' Investor Relations website. And now, I'd like to turn the call over to President and CEO, Brian Cox.

Kevin Cox

Thank you, Mike. Good afternoon, and thank you for joining us.

Our first quarter results were in line with expectations and closely mirrored Q4 of 2024. But today's call is less about the past and more about what lies ahead. Since our last update in mid-March, we've made tremendous progress and closed a strategic financing to accelerate our next phase of growth. Thanks to the long-term investments we've made in our team, technology, distribution and partnerships, we believe SurgePays is now positioned for the most significant revenue and cash flow growth in our company's history.

For the 12-month period, looking back to April 1, 2025, we're targeting $200 million in revenue and expect to exit 2025 operating cash flow positive. We're gaining momentum across all areas of our wireless business, both as an MVNO through LinkUp Mobile and our government-subsidized brand Torch Wireless, and also as an MVNE through our new wholesale platform, which offers the full suite of nationwide wireless to third-party wireless providers. Despite the forward-looking nature of this update, we did have certain major milestones in Q1 2025. One such major milestone was the launch of our multiyear partnership with AT&T. We signed this agreement in November 2024 and completed the full integration, including a network migration and SIM activation rollout by April 1st. That's less than 6 months from handshake to execution, an incredible achievement, and I'm proud of the SurgePays team for delivering flawlessly. This partnership gives us direct access to one of the most reliable networks in the country and critically positions us to provide back-end telecom infrastructure to MVNOs that don't have a direct carrier relationship. Since our soft launch, we've shipped over 210,000 SIM cards to customers and retail partners.

Another 290,000 SIMs are in inventory with 250,000 more arriving before the end of May to meet demand for both retail and wholesale channels.

Our wireless services are sold and activated over our robust retail network, over 9,000 community-focused stores nationwide, serving as trusted transaction points for activations, payments and top-ups.

Our distribution model is local, efficient and deeply integrated into the daily lives of our customers. The heart of this model is our point-of-sale software, which powers transactions and drives reoccurring revenue from activations and replenishments. It's not just a tool, it's our ecosystem, and it's a true differentiator.

On the wholesale side, we are building a new revenue engine.

As an MVNE, we're providing billing, provisioning, SIMs and eSIMs to other wireless companies. This is an expected high-margin model with minimal incremental costs. Many MVNOs you see in the market today are actually sub MVNOs. We're one of the few with direct carrier access, putting us in a rare and powerful position. To date, we've onboarded 3 MVNOs with 2 more in the integration pipeline. These partners collectively serve hundreds of thousands of subscribers, and they're looking to grow fast, giving us a path to rapidly scale our platform and reoccurring revenue base. In many ways, we believe we've built a uniquely powerful engine that blends technology, innovation and distribution, and we're just getting started. We're in advanced talks with national distributors, each with footprints in tens of thousands of retail locations.

One of those is HT Hackney, which services over 40,000 convenience stores. We utilized the Hackney new product shows recently to roll out our latest concept for fast-paced convenience stores, the Phone in a Box product. This is a retail-ready grab-and-go solution that allows stores to sell and instantly activate wireless service by scanning at the register. The phone and plan combined retail for under $100. To prove our concept, we brought in 2,600 smartphones already kitted with the SIM installed and custom box packaging and peg hook ready. We sold out in under 30 days.

We will replenish these while continuing to monitor the feedback and what sells best at the store level. We can offer a range of smartphone options from good to best and are excited to see the results as the LinkUp brand gains traction in the market, enabling store owners to generate revenue from both the retail phone sale and the monthly top-ups for plan payments. Based on the feedback from the new product shows and its quick sellout, early results are promising.

Here's the kicker. Every store that sells the Phone in a Box joins our network because they will need to accept top-up payments for the monthly wireless plans. This means each store becomes a new activation point, not just for wireless service, but for our entire product suite. We believe this model unlocks exponential growth. We're watching closely and focusing on which product or service provides the fastest path to onboard stores. This is key to scaling to our near-term goal of 100,000 locations operating on the SurgePays platform. I want to take a moment to recognize a key leadership move. We recently promoted Derron Winfrey to President of Sales and Operations. Derron is a proven revenue driver and a veteran operator responsible for over $1 billion in sales in his prior roles. His effective leadership gives me the freedom to stay focused on the big picture, building value, scaling the business and driving stock performance. Many of you have asked about how we plan to fund this growth and whether we're considering issuing equity.

Here's what I'll say.

Our team holds significant equity in the company. We're deeply aligned with long-term shareholders, and that guides every capital decision we make. We worked hard to structure the right financing, a non-dilutive, long runway and shareholder-friendly solution. I'm pleased to share that our largest outside shareholder, Cable Car, stepped up with a $6 million investment. Their support is a decisive vote of confidence in our vision and the execution we've demonstrated so far. The 24-month convertible note amortizes at month 8, converts at $4 per share and includes an option for the company to repay early. We believe this capital provides us with the flexibility to move quickly and execute our rollout without delay. And based on our current trajectory, we expect to be cash flow positive by the end of December 2025. To sum it all up, SurgePays is at a major inflection point. We've transitioned from a reseller to a platform, from a distributor to a telecom partner. We believe we're building something bigger, backed by strong fundamentals and driven by a leadership team that knows how to execute.

We have the products, the partnerships and now the capital. We're entering a phase of high growth and high impact, and we're doing it the right way with discipline, with purpose and with our shareholders in mind. Thank you for your support and belief in our mission. I'll now turn it over to Tony for a detailed review of our Q1 financials. Tony?

Anthony Evers

Thank you, Brian, and good afternoon, everyone.

For the first quarter of 2025, we reported revenue of $10.6 million compared to $31.4 million for the same period in 2024. The decrease was primarily due to the shutdown of the ACP federal funding, which ceased in June of 2024.

In addition, we received no revenues from our lead generation services in 2024 and have discontinued that business as of December.

Our platform service revenue growth was robust, generating $8.3 million in the first quarter of 2025 as compared to $2.5 million in the first quarter of 2024. This increase in part is a result of our new Sales Director hired earlier in the year. Gross profit was a loss of $2.9 million for the first quarter of 2025 compared to $8.2 million of gross profit for the first quarter of 2024 due almost entirely to the shutdown of the ACP federal funding and our strategic decision to utilize our strong balance sheet to protect our previous ACP subscriber base and distribution network, while we transition the base over to either a non-subsidized [MBO] product, LinkUp Mobile or into Lifeline and other subsidized program. SG&A expenses decreased by 28.6% year-over-year to $4.4 million during the first quarter of 2025 as compared to $6.1 million for the first quarter of 2024. This decrease was primarily due to a reduction in contractors and consultants, professional services, compensation and insurance, partly offset by an increase in computer and Internet, advertising and marketing and other expenses. Loss from operations was $7.6 million in the first quarter of 2025 compared to $1.8 million in operating profit in the first quarter of 2024.

Our reported net loss and loss per share were $7.6 million and negative $0.38 per share.

Our loss and loss per share were adversely impacted primarily by the ending of the federally funded ACP.

Turning to the balance sheet.

Our cash, cash equivalents and investment balances as of March 31, 2025, were $5.4 million compared to $11.8 million as of December 31, 2024. Subsequent to the quarter, and as Brian mentioned, we closed on a $6 million financing. The note carries an interest rate of 15% per annum and matures 24 months from the date of closing. Amortization of the note begins at month 8 with prepayment option in excess of amortization in whole or in part at any time with 5 days advanced notice at a 2% premium to principal amount plus accrued interest. The note has a fixed conversion price of $4 per share beginning at month 8 from the date of issuance, subject to monthly conversion limits. Included in the note is a dilution offset clause in which the company will exchange 333,333 shares of Cable Car's existing equity position into $999,999 of principal at $3 per share.

Additionally, the company will issue 700,000 5-year cash warrants with an exercise price of $6 per share. I will now pass the call back to Brian for some closing remarks.

Kevin Cox

Thank you, Tony. I've never been more confident in our team, our strategy and the long-term value we're creating for both our customers and shareholders. The foundation is built, the investments are in place.

Now it's time to execute and deliver. I truly believe we're entering a transformational chapter for SurgePays, one that will define the next phase of our growth story. Thank you all for joining us today. Operator, we'll now open the call for questions.

Operator

[Operator Instructions] First question today is coming from Kunal Madhukar from Water Tower Research.

Kunal Madhukar

A couple, if I could.

The first one on the MVNE opportunity. And you talked about 3 already integrated and 2 in the pipeline with hundreds of thousands of subscribers.

So can you talk about the time line over which we can start seeing revenues start flowing in from these MVNE partners that you have?

Kevin Cox

Yes. The revenues should start showing up in Q2. Those 3 companies, I just got an update as early this morning, are all activating currently. And as they ramp up and they shift out of their old SIM card inventory and start replenishing with ours, we'll see those steadily rising. And like I said, it's the reoccurring revenue model for all of them, which we get to participate in even on the wholesale level.

So we're very excited about the MVNE portion of our business, and it has got a lot of emphasis from our development team.

Kunal Madhukar

And then another one on the SIM cards.

So you disclosed that by June, you should have about 800,000 SIM cards either distributed or within your inventory. How are you distributing it among your subscribers, existing subs, the retail network that you have and the MVNEs that you're partnering with?

Kevin Cox

Yes. It's almost if you look at it like a triage across all facets of our company.

We have to have inventory in stock because there's a, let's say, a 4-week turnaround from the time we order SIMs to the time we get them. And once you've got folks heating up and selling, you've got to be able to replenish those sales distributors and sales teams or wholesale companies.

You can't run out of those SIMs.

So this will stock us internally with our inventory. This will give us inventory to activate on the government subsidized portion of our business lifetime and get that inventory out to folks that are doing activations in the field. It will give us inventory for LinkUp, get the hands of the distributors, master agents, the wireless stores, the convenience stores. It will give us the SIMs to do our next round, if you will, of our Phone in a Box concept based on the feedback we get and what type of phone and more offerings through the Phone in a Box program. And then it will also give our initial inventories to the new companies that are coming on, that are buying wholesale from us on the MVNE side.

So by the end of that month -- that's our projection by the end of June. And then we should be in a constant replenishment mode where we keep a watermark of inventory to be able to absorb any burst of sales that we have depending on the market. But that's the way we're going to move forward, and that's where we feel like we've got -- that will get us a good baseline, and then we'll obviously ramp up our ordering of SIMs as the adoption of our product kicks off and scales up.

Kunal Madhukar

Great. Actually, if I could. One, on the MVNE side, you talked about high-margin recurring revenue from the MVNEs. Can you talk about the economics? And how like we should model out in terms of if you get one MVNE subscriber, how many does it translate into? And then ultimately, when we are thinking of these hundreds of thousands of subscribers, how should one think of adoption for your part of the service for those subscribers?

Kevin Cox

That's a tricky question because you're trying to put the same T-shirt on multiple MVNOs and that MVNO may be a prepaid regional MVNO. It may be a Lifeline MVNO that only operates in 4 or 5 states. It may be a big Lifeline MVNO that operates nationwide or it may be a prepaid company that operates nationwide. And I say that because that's literally the variety of companies that we're engaged with right now.

So I think every company almost on an individual case basis will have their performance based on what -- and also their funding of their company and what their goals are. We're trying to align ourselves with people that want to grow rapidly. There's a lot of little guys out there that are going to have to wait in line. But from an economic standpoint, it's hard to say, hey, with every MVNO we bring on, it's going to generate x. And even within the MVNO, when you're looking at a model where -- again, I can't get off into the weeds of the actual secret sauce of rates. But when you're -- when we're selling our product, how an MVNO contracts with us, you're going to have an MRC that they're going to pay us every month, and that would keep that SIM card active, and that would include an allotment of talk text. And then the commodity that's metered from there is data.

So in the old days, you'd have a charge for your minutes, your text messages and data.

Now your -- all of your unlimited text messages and minutes are included in the MRC. And the only thing that's measured is data.

So again, if you have, let's say, a Lifeline company that's primarily in [$9.25], not going to have a lot of data. But if our margins -- if we've stabilized a good margin in the MRC and guaranteed ourselves a good, healthy 20% to 30% margin per subscriber they sign up, whether it's a $10 customer or a $30 customer, it won't matter too much to us, even though we do incrementally make more profit based on how much data they consume.

So I think that's going to be one of those trickier ones to model out in your analyst mind and something that we'll probably be looking at good ways that we could message that out to you as this unfolds. And you guys can start doing a blended average per MVNO or a blended average -- blended margin per MVNO. But I think we're going to have to wait and see how that turns out in the wash for you guys to start modeling.

Operator

[Operator Instructions] The next question is coming from Ed Woo from Ascendiant Capital.

Edward Woo

Yes. Congratulations on the progress. My question is, obviously, you guys have a very broad distribution network in the communities of these underserved customers. Are you seeing any change in the outlook of these convenience store owner of whether they're really concerned about the economy or whether they see any change in their consumer -- their customers' economic activities?

Kevin Cox

We obviously have our ear to the ground and are neck deep in all of these communities. And whether it's a traditional gas station convenience store or a corner store or a community market, that community that really falls underneath that, let's just call it the wave break zone of the economy. There's normally not a whole lot of change based on craziness on the macroeconomics of the country. If anything, it's only going to increase our available market. It adds -- as things get a little tighter, our target, that 1/3 of the country that's our target customer, doesn't normally have 401(k)s and mutual fund IRAs and investments.

So stock market, GDP, tariffs, those types of things don't really directly affect them necessarily.

So -- but we've said this a couple of times before. One thing about when the world gets a little more myopic and more paying attention to value, that's great for us because we're presenting an alternative to whatever people are using now for wireless. We're presenting an alternative and a new revenue possibility for that store owner.

So if we can enhance that store owner's bottom line, and we can also increase the amount of money that, that end subscriber or end customer gets to use or gets to keep in their wallet or let's go ahead and spread that out to the MVNE side. If we can offer better rates at a more friendly partner to these other entrepreneurs in the prepaid wireless or wireless world, then we get an ear that's a little different than when times are good and people are just not really caring about what they do tomorrow. They're just going to repeat what they did yesterday because they're fine.

So we always find opportunities in moments where things are a little bit tight or dicey or stormy. And that's why I think it's great timing, all things considered, for the product suite and the distribution mechanisms that we have in place right now.

Operator

And next, we will have a follow-up from Kunal Madhukar from Water Tower Research.

Kunal Madhukar

A quick one on the near-term goal of 100,000 locations that you talked about.

Now you're currently in about -- just about maybe 10,000 locations.

So that seems quite ambitious at first glance. But if you have a near-term goal, you must have a lot of visibility into how you're going to get there.

So can you please talk about how you intend to get to 100,000 distribution locations?

Kevin Cox

Yes, So, you stole my -- one of my thunder words there with visibility. I use that word often because we do have visibility down range, and we're able to look at the possibilities and the feedback that we're getting.

So that number is definitely what I would consider a conservative compilation of folks at some level in the pipeline of sales, whether it be direct distributors, whether it be -- again, one of the things I touched on in my script was we have probably 4 products that can get us in the door. And all that, that one product, whether you want to call it a doorjamb or a Trojan horse, it doesn't matter. That gets our entire product suite, our entire SurgePays network platform into that store at the register.

So looking at the -- to use your word again, evaluating the visibility, looking down range at the folks like HT Hackney, quite a few others that I won't mention because we're in negotiations. There -- HT Hackney is regional. There's plenty of HT Hackney's. There's also other products on the top-up side of things. There's huge networks that we're in discussions with on LinkUp. There's huge networks in the Lifeline space that deal with EBT redemption, specifically out West in the tens and tens of thousands.

So there's a lot of other companies we're talking to actively right now that are the merchant processing, credit card processing, ISOs, that have tens of thousands of stores in their network where they're making that small fraction of a percent on all those credit card transactions, and they're looking for ways to upsell their existing base so that they can make -- squeeze a few more bucks per location out and enhance their portfolios.

So all of these are on the table.

We have various high-level sales folks in our company who are each focused independently on their own category.

So that is -- there's definitely some thought that went into that. And that is my goal by the end of next year is to get at that $100,000 mark. I hope we get there sooner, but that is our goal collectively that we've been talking about amongst the management team.

Kunal Madhukar

Got it.

So by end of 2026 is what you're kind of thinking of. And we would be remiss to not talk about the -- at least on the Lifeline side, the opportunity that exists in like higher revenue states and regions and demographics.

So like California, for instance, what's the progress that you're seeing on that side?

Kevin Cox

Progress is full steam ahead nationwide. We're -- after this financing, I wanted to also -- look, let's be careful. I'm definitely a hard charger of Viking, if you will. But at the same time, we all have -- everybody on our team has their life's work invested in what we're doing.

So we're not going to go willy-nilly with our eyes closed.

So we've been methodically plotting forward pending this financing with the financing being really growth capital targeted toward Lifeline and some of these other front-loaded ROI investments in the recurring revenue subscriber, like the Lifeline subscriber.

So yes, your states that have the higher, whether it be $15, $21, $34, $30, numbers similar to the old ACP world. Those will be targeted first. And then we're also -- we're not going to forget about [$9.25] because we believe, based on the feedback that we're getting coming from Washington that there's going to be an enhanced Lifeline product where the government is now well aware that it's very difficult to provide a usable phone service for $9.25.

So I believe they're going to look at doubling that, and they're going to open that up to folks like us.

So we're hopefully -- again, I'm not projecting that, not putting my name on that because we all know things that come from Washington could change with the wind. But that is the goal right now of the coalitions related to subsidized telecom is to get an enhanced lifeline, ballpark $20, give the consumer an actual usable product, so there would no longer be $9.25 states. There would be $20 states and then you still have your other states with tribal and California and Kansas and Kentucky that had extra money.

Operator

Thank you. This concludes today's Q&A session. And also, this concludes today's conference.

You may disconnect your lines at this time. Thank you for your participation.