SurgePays (SURG) / 25 Mar 25 / 2024 Q4 Earnings call transcript

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Kevin Cox	executive
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Operator

Greetings. Welcome to SurgePays Fourth Quarter 2024 Earnings Conference Call. [Operator Instructions] Please note, this conference is being recorded. I will now turn the conference over to your host, [Mike McCormack], Investor Relations at SurgePays. Mike, you may begin.

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Unknown Executive

Thank you, operator, and good afternoon, everybody. Welcome to the SurgePays fourth quarter 2024 earnings webcast and conference call.

On the call today from SurgePays are Brian Cox, President and Chief Executive Officer; and Tony Evers, Chief Financial Officer.

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 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-K for the year ended December 31, 2024, is also available on the SurgePays' Investor Relations website. With that, I'll turn the call over to Brian.

Kevin Cox

Thank you, Mike. Good afternoon, everyone. Thank you for joining us. Today, we will cover our 2024 results, but more importantly, I want to focus on where we're going and why we're confident. Investments over the last couple of years have positioned SurgePays for the most significant revenue acceleration in our history with a clear path to sustainable positive cash flow in the next 12 months. From August 2021 through April 2024, we capitalized on the federally funded Affordable Connectivity Program, or ACP.

During that period, we generated over $250 million in revenue, acquired more than 285,000 wireless subscribers and built a retail distribution network of nearly 9,000 convenience and community stores nationwide. At the same time, we fortified our balance sheet, not just to sustain that momentum, but to build for what comes next. And make no mistake, we believe we have built and positioned our company for this next bigger and greater phase. Even with the advent and sunset of ACP, our mission hasn't changed, connecting and serving underserved communities where they live, shop and work. The ACP experience sharpens two truths.

First, seize opportunities.

Second, never rely on a single revenue stream. Today, we're a more efficient and diversified company, and we're entering a period when the revenue opportunity far exceeds what we generated previously.

Let's talk about how. SurgePays operates across 2 primary segments: wireless and our point-of-sale, POS software platform.

On the wireless side, we are a mobile virtual network operator, or MVNO, operating across 3 key channels. LinkUp Mobile is our prepaid brand, Torch Wireless is our government-subsidized offering, and wholesale airtime, providing wireless access to third-party companies through our MVNE platform. LinkUp Mobile is now launching nationwide, and we expect to share more updates soon as growth accelerates. Torch Wireless, supported by the Lifeline program continues to enroll new customers daily. When ACP ended, we chose to self-fund this transition, not only to preserve connectivity for our customers, but to retain the base we've built. This was both a responsible move and a strategic one. And we've unlocked an entirely new revenue engine as a mobile virtual network enabler, an MVNE. Thanks to our AT&T partnership, we can now provide wireless infrastructure, billing, provisioning and SIMs to other wireless companies who don't have direct carrier access. These wholesale relationships are highly profitable and scale with minimal incremental costs.

We expect this to be a significant cash flow driver.

Our point-of-sale software platform is the core of our retail distribution and a major differentiator. Thousands of stores nationwide already use it for top-ups and product activations.

Our top-up platform saw over 300% revenue growth from Q1 to Q4 in 2024. That's not just strong revenue, it's activation readiness. Every store joining our POS platform becomes a distribution point for LinkUp Mobile. The synergy between wireless and POS is the power of our model. It's a self-reinforcing ecosystem that we believe no competitor in our space can replicate. We're not just in wireless; we're not just in fintech.

We are a platform built for underserved communities, built to scale and built for growth. In November, we announced a multiyear agreement with AT&T, providing our customers with full access to the nation's largest wireless network, 4G LTE and 5G coverage coast-to-coast. This has been a decade-long goal. I'm proud to share that the integration is complete. We launched April 1.

Our soft launch in March exceeded expectations, over 30,000 SIMs deployed. 200,000 more SIMs just arrived and another 250,000 SIMs are already on order. Based on current demand, we expect to ship 250,000 to 300,000 SIMs per month moving forward. We've strengthened our leadership team to drive this growth. Mark Garner was promoted to EVP, brings nearly 30 years of telecom experience to managing our software platforms. Allison Seyler, now VP of Sales, is executing across direct, partner and reseller channels.

Our infrastructure, operations and software stack are now in place.

Now we scale. Tony will take you through the 2024 numbers in a moment.

Looking ahead, we expect Q1 of 2025 revenue to track closely with Q4 2024. But starting in Q2, we turned the corner.

We expect over $200 million in revenue over the next 12 months. And with this ramp, we expect to exit 2025 cash flow positive and entering 2026 with momentum. With that, I will turn it over to Tony.

Anthony Evers

Thank you, Brian, and good afternoon, everyone. I will begin my overview of our 2024 financial results. In 2024, we reported revenues of $60.9 million compared to $137.1 million for the same period in 2023, representing a decrease of 56%. The decrease was primarily due to the shutdown of the ACP federal funding, which ceased as of June 2024.

In addition, we received no revenues from our lead generation services in 2024 and have discontinued that business as of December 31, 2024.

Our platform service revenue growth was robust, generating $17.4 million in 2024 compared to $11.3 million in 2023. This increase is a direct result of our new Sales Director hired earlier in the year. Gross loss was $14.3 million in 2024 versus a $35.6 million gross profit in 2023 due 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 nonsubsidized MVNO business model, LinkUp Mobile, or into another subsidized program, Lifeline.

Additionally, the deemphasis of our lead generation business resulted in lower gross profits in that segment as well. SG&A expenses increased by 57% year-over-year. The increase was primarily due to additional noncash stock compensation for management. This stock compensation relates to vesting of restricted share awards granted via employment agreements signed in late 2023.

We also had additional expenses for contractor and consultant fees. The company continued to engage several contractors to overhaul the financial platform to allow for the conversion to a tablet-based transaction at the store level from the outdated Verifone Terminal. The company also engaged with consultants to provide advisory services, specifically in the area of investment relations to identify opportunities to increase our shareholder value. Loss from operations was $41.8 million in 2024 compared to $18.9 million profit in 2023.

Our reported net loss and loss per share were $45.7 million and $2.39 negative 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, liquidity and cash flow.

Our cash, cash equivalents and investment balances as of December 31, 2024 were collectively $12.8 million compared to $23.7 million at the end of the third quarter.

Our cash from operations was $21.3 million use in 2024 versus a $10.3 million source in 2023, a large negative swing due to the winding down of the federally funded ACP and our continued servicing of these subscribers for the fourth quarter of 2024. Accounts receivable decreased by $3 million at December 31, 2024 from $9.5 million at the end of 2023.

Given our cash balance and capital structure, our cash allocation priority is in financing the transition of our subscribers to either LinkUp Mobile or Lifeline and the continued emphasis of establishing our LinkUp Mobile brand. 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 the SurgePays team, our strategy and the value we're building for shareholders. We've built the platform, we've made the investment, now comes the return. Thank you so much for your time today.

We will now open the call to questions. Operator?

Operator

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

Unknown Analyst

A couple, if I could. One, basically, just on the SIM card itself and the SIM card orders that you are -- that you have already placed. I wanted to get a sense of like when is it that you place the orders? How soon does it get delivered? And does it have to be physically present in the stores for you to be able to convert subscribers or potential customers into subscribers?

Kevin Cox

Yes. Good question. The SIM cards are, let's just say, historically, completely --the activation is completely dependent on the SIM card up until April 1st. We've added a new capability now.

One of the things that our guys have been working really hard on in the integration with AT&T. And one of the other benefits of going direct is to be able to do eSIMs where you can bypass the actual physical SIM card for newer phones and the network is able to connect directly to the device without SIMs. But you're right, the SIMs need to be in the stores, and that's why we refer to the soft launch last month of getting in 30,000 SIMs, getting them out there, and that was at the request of AT&T. We both wanted to test and pressure test both sides of the platform. Their platform and network and our platform. We got those out. The 200,000 came in last week. Those are being triaged out and really more throttled and parsed out to folks because the demand was higher than 200,000.

So, we've got our management team making the decisions on where those go. And then another PO for $250,000.

So, whether it's a convenience store, wireless store, whether it's in the hands of our fulfillment center sending out direct orders to customers, whether it be on Lifeline or LinkUp, your activation is dependent on the SIM.

And so, you can almost indirectly, kind of poor man's math, look at the SIM orders as representative of backfilling and fulfilling and replacing as activations happen.

Unknown Analyst

So, effectively, one could assume that when you're talking about 250,000 to 300,000 SIMs that you expect to order on a monthly basis, to be probably a reflection of the gross adds that you expect for LinkUp Mobile?

Kevin Cox

Yes, across the three channels, and we've looked this up and down. I hope to give some updates here soon as we start to see how this shakes out for the wholesale channel, the MVNE channel, as we talked about. That's actually gaining a tremendous amount of momentum. And by the way, these companies who will access the network through us, that's what we've done in the past 10 years. That's the way we've never -- my team has never had a direct carrier relationship.

So, you would be surprised most of the MVNOs you see out there are actually sub-MVNOs. There's not a whole lot of people that have direct access.

So, you could look at that, that 250,000 to 300,000, yes, and know that those are going to the three channels. They're going out to LinkUp Mobile distributors and LinkUp Mobile customers. Those are being allocated to Lifeline customers, and those are being allocated to third parties for their activations through our interconnectivity on the AT&T network.

Unknown Analyst

Great. And one last one before I let you go. The $200 million are -- over $200 million of revenue that you're talking about for the next 12 months, is that from 2Q '25 through 1Q '26? Or is that for 2025?

Anthony Evers

I'll answer the question. It is for 12 months.

Kevin Cox

Sorry about that, guys.

You know what, I was drilling off a phenomenal answer. It was almost poetic. And you guys -- it can't be recreated.

Sorry about that. I tapped mute on the device here. But no, the way I would look at that is we don't get to choose when we were able to go full throttle on the AT&T network. Obviously, when you're dealing with somewhat of a $1 trillion company, we're on their time line.

And so, if you look at it as April 1, that's the full launch of everything we've been putting together over the last few years, the millions of dollars of development, all the backbones, building the team, building the distribution.

So, you can look at that. That will not be 2025. That will be starting April 1st.

Operator

The next question will be from Anja Soderstrom from Sidoti.

Anja Soderstrom

Congrats on the progress here. It looks like you have a lot of exciting things going on. I'm just curious about the SIM card. Can you talk about the economics behind this and sort of the margin profile of it?

Kevin Cox

Sure. Would you -- anything specific you'd like me to focus on? Or I don't want to just -- tell me what you'd like me to --

Anja Soderstrom

What your spread will be on them in terms of gross margin?

Kevin Cox

Yes.

Okay. And I know that, for example, even in LinkUp, your various plans have different margins. The higher the plan, the higher the margin. We think the blended average on LinkUp Mobile, which is our prepaid brand, will be very similar to the ACP.

You're going to be anywhere from $8 to $15 depending on the plan.

So those are really good plans for us. Those are definitely some meat on the bone there. Very excited about that. And that's -- we've got that allocating about 37% of that $200 million, if you wanted to just make some notes there.

On the Lifeline side of things, various states, we're going to start focusing on the states that have additional money, there are some states out there that have, again, similar to the ACP world of that $12 to $13 a month. We're going to pinpoint our focus on those states.

So that would be about the same as ACP as well.

You're going to be looking at about 24% of the $200 million through there.

On the wholesale MVNE, the goal is to make $1 or $2 per subscriber per month. Again, that's -- there's no cost to us. We're purely providing access. We're wholesaling to other people. That's why that's really exciting to me, being able to make money off other folks sweat.

You're going to be looking at about somewhere around 13% there. And then the rest of the percentage that goes toward that top-up, you've got your clear line, some other ancillary channels that will hopefully be kickstarted this year. And then the top-up is going to be around 24%. That's the third-party transactions doing top-ups and reloads for all of our competitors in the prepaid wireless world.

Anja Soderstrom

Thank you. And then in terms of your sort of revenue target for the next 12 months, how should we think about the composition for that? Is that a majority from SIM cards or what else are you expecting to contribute to that?

Kevin Cox

The majority of it will be from the wireless segment.

Let me do some quick math here. Over 50% of that will be from our wireless and our most profitable, highest margin products that would come from LinkUp Mobile prepaid and from the Lifeline.

You're looking at about 60% of that coming directly from those two.

You'll have another 13% coming from the wholesale side, still on the wireless, still relating to SIM cards, but that would sum up the wireless segment.

Looking at around 25% to 26% and the lower margin point-of-sale platform transactions, but the point-of-sale transaction is critical to us being able to do activations. That's what makes us so unique is we're able to use our own platform to do our own transactions and our own activations and our own payments, everything closed loop with our platforms.

Anja Soderstrom

Okay. And it seems that you partnered up with a couple of companies here in terms of rolling that out. How many more opportunities are there? How many of these companies are out there that you could partner up with?

Kevin Cox

See, this is what gets exciting. And this is why my team as a whole is almost walking on air right now. And let me create a little bit of the back story and then answer your question. We've got 3 or 4 people on our team right now who have started from scratch companies that launched MVNOs, other MVNOs. It's always been the other MVNO on strictly top-up platforms.

As a matter of fact, we're just having a conversation a little while ago where there's three people on our team who have built 10 million plus a month -- $10 million plus a month in revenue top-up businesses independent of each other at the same time. We know different people.

You put all that together, there's a lot of people that our team has helped over the years. A lot of master agents.

You think about the country and then you branch that into master agent territorial agents, and they have subagents. And ultimately, those subagents go down to the people that actually go pull the doors and call in the stores, kind of that traditional distribution model. There's distributors that we have down range on our hit list, if you will, that we haven't even talked to yet because we want to get 300,000, 400,000 subscribers under our belt first to make sure that we've got all the tools. All the tools, there's still some development going on that will allow us to talk to the biggest distributors in the country. I'll give you example, eSIM that I just mentioned. That's a very important thing because a lot of people in the prepaid business now, it's not the $50 phone that you see. A lot of folks have Galaxies, iPhones, and they need the ability to do eSIM.

You've got number portability.

One of the biggest changes in the prepaid industry over the past 5 or 6 years.

Now there was a period of time where people wanted to change their number for various reasons.

Now people want to keep their number for all the 2-FA and the other things that are really important to keep your number. It's become more of an identity for our customer base.

So, number portability is important. Also, device compatibility lookup.

Now that we're direct with AT&T, they have certain criteria, needs to be approved or certified AT&T phone. It can't be a $40 piece of junk. It won't activate. And those -- all of these tools that I just mentioned are significant time and investment into those tools, and we've got those now.

So those will enable us to go talk to more people than we've already talked to, Anja. I mean, it's exciting.

As a matter of fact, I think our -- one of our biggest challenges is going to be -- to ride and control the growth, stay focused, stay under control, manage the cash flow as we grow and be able to maximize and monetize the opportunities.

Operator

The next question will be from Ed Woo from Ascendiant Capital.

Edward Woo

Congratulations on all the progress you made this year. My question is, you guys have a very unique relationship with the working class. What are you guys hearing in terms of the economic outlook? How are they doing? And how will you think that, that will help or hurt your businesses?

Kevin Cox

Thanks for the question.

Our market -- just for those of you that are new to SurgePays, most of our team has been in this specific market.

Let's just call it the overlooked market, the underserved, the 1/3 of our country. It's still going to be the same market no matter what happens with GDP or tariffs or other things.

Now obviously, if gas skyrockets or other macroeconomic things happen, it affects them. But what we have found is when things are tight, that's when people subconsciously and consciously look for value. Otherwise, when things are great and everything is just flowing, you're not really paying attention to saving that dollar. It has a different value when there's extra dollars. But when it's tight, that's when you are more willing to make a change. Change your cell phone vendor, change your number, if need be, change over to a different carrier.

If you're a store, if you're a convenience store, I've never taken wireless payments before. But you know what, I could use a couple of extra $100 a month. Yes, let me try this.

Let me try it, bring it in.

Some of the in-store marketing, let's try that.

So, I think it's not only from our actual consumer, if you will, look at it as a subscriber and the people who are on our network, on our wireless network, our customers, the store owners, the bodega owners, that community store entrepreneur, that's a client. That's what's really unique about our model, and they're in the same community. They're in the same neighborhoods. They fit together.

So, I think it gives us a really, really unique opportunity to make that cold door handle a little warmer when we're coming in to help the store owner, the client and allowing him to help the customer, the folks living in his neighborhood.

Edward Woo

Well thanks for answering my question and I wish you guys good luck this year.

Operator

The next question will be from Michael Diana from Maxim Group.

Michael Diana

First of all, just to clarify, when you were talking about the percentages of each program, 37%, 24%, 13%, that was a percentage of your $200 million of projected revenue. Is that right or wrong?

Kevin Cox

Yes, you're correct.

Michael Diana

Okay. Good. Then you exited ACP with about 280,000 customers who are obviously your most likely targets. I understand you're going after a much bigger base than that. But the strategy for those 280, I mean, you want to sign them all LinkUp and not Torch, but some of them can't afford LinkUp. Have you gone after the more likely Torch people yet or are you just waiting for April 1 to just hit everyone and try to get them on LinkUp?

Kevin Cox

No. We actually were able to convert about 1/3 of those over to Lifeline.

One of the challenges that we had on getting a much higher number than that was keeping in mind Lifeline has to do with voice and talking and requires a smartphone for -- Lifeline is literally the old Reagan program, verbal communication. We had a percentage of our customers that had tablets, they were very difficult to get a hold of.

So, we've already made the run.

If you look at the expense in Q4 specifically, a majority of that expense was covering the airtime for the customers as we worked really hard, had our team -- every communication mechanism that we could do to reach out to them.

So, we were pretty happy with what we were able to get over to Lifeline, but those are no longer on our network. We didn't want to carry the expense any further.

So, we salvaged what we could from that, and now we're looking forward.

Michael Diana

That was sort of my next question.

So, of the 280,000, you've converted roughly 1/3 to Lifeline and you're not supporting the rest of them now. Is that right?

Kevin Cox

You're correct.

Michael Diana

Okay.

So, they're going to be your first call though, for LinkUp, right, the ones that aren't on Lifeline?

Kevin Cox

Any customer that we have to date, we're always going to incentivize referrals.

So yes, we'll constantly use that as a growth channel.

Michael Diana

Okay. And last quarter you were talking about a much lower margin for Torch. But I guess you're saying state by state; the margin varies and you're just focused on the higher-margin states. Is that the idea?

Kevin Cox

I think a good way to word it as we peeled the onion back and we looked at the opportunities. The margins with LinkUp were so significant and knowing that we don't have $100 million in the bank to just slam the gas in all 3 channels. It made sense for us to focus our revenue where we get the highest return, but also, we don't want to do this for 20 years. We want to get it now. I mean, I'm impatient. We've been revenue fasting for 8 months. This is not our team's normal MO.

So, what we did was like, the Lifeline program is a great program, and we've already built a significant platform for enrolling customers compliantly, all the federal guidelines.

Let's focus on the states that have higher margins.

Let's put this out there in the states where it's not just $9.25, but where it's $15, $16, where it's $26, give or take.

So that's where you hear the bigger margin. We're just going to put the money where we get the most bang for the buck. And it's a scenario where we could actually grow bigger numbers faster. And what's unique about these models, Michael, is the LinkUp model is prepaid. And I think this is important for everybody as you're visualizing this. Prepaid, we get paid upfront. It's prepaid, LinkUp prepaid. Customers pay upfront, then we pay in arrears for the airtime.

So, you have that counterbalanced with your Lifeline where we provide the service, we file to the federal government what we've done and then we get paid 30 days later.

So, there's a juggle triage that you have to do with cash flow to minimize that cost per acquisition dip but to make sure that you can realize the margins there in Lifeline, which are good. And it's also a great way to differentiate from other prepaid wireless companies when we can offer a convenience store owner the ability to do activations, but also to give service away every time someone pulls out that SNAP, EBC Food SNAP card, it's a differentiator for us.

So, we're going to look to maximize that, and that's the thought process that went into these projections.

Michael Diana

Okay. And then on your platform services, your top-up.

So, in 2023, you made $11 million doing that. And in 2024, $17 million. But I take it that's before you really started or about to ramp-up. Is that right?

Kevin Cox

If you were looking at month-over-month, that top-up services continued to fall during 2024 until we put things together and started growing.

As I was saying earlier, growing it with the anticipation of the coming LinkUp mobile activations. That was the trigger, the catalyst that allowed us to get this in front of master agents who then went and got stores, yes.

So, 2024 continued to dip, but then it significantly started skewing up in Q3 and Q4 in anticipation of the LinkUp Mobile. Yes, it's almost like that, that was the sales pitch of it. Hey, we have this coming.

You have to be on our network to be able to activate. Why not go ahead and do it now?

Operator

Thank you. This concludes today's Q&A session, and it also concludes today's conference.

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