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USIO.OQ - Usio, Inc. - Special Call

EVENT DATE/TIME: DECEMBER 16, 2020 / 9:30PM GMT

CORPORATE PARTICIPANTS

Joseph Hassett *Usio, Inc. - IR*

Louis A. Hoch *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

Lowell Thomas Jewell *Usio, Inc. - Senior VP & CFO*

CONFERENCE CALL PARTICIPANTS

Barry Sine *Spartan Capital Securities, LLC, Research Division - Director of Research*

Brian David Kinstlinger *Alliance Global Partners, Research Division - Head of TMT Research, MD & Senior Technology Analyst*

Jon Robert Hickman *Ladenburg Thalmann & Co. Inc., Research Division - MD of Equity Research & Special Situations Analyst*

PRESENTATION

Operator

Good afternoon, and welcome to the Usio-IMS Acquisition Conference Call. (Operator Instructions) Participants of this call are advised that the audio of this conference is being broadcast live over the Internet and is also being recorded for playback purposes. A replay will be available shortly after the end of the call through December 30, 2020.

I would now like to turn the conference call over to Joe Hassett, Investor Relations. Please go ahead, sir.

Joseph Hassett - *Usio, Inc. - IR*

Thanks, Sara. And thank you, everyone, for participating today. Welcome to Usio's IMS Acquisition Conference Call. The press release, which Usio issued earlier today, is available on the company's Investor Relations website at usio.com Investor under News.

Today, Louis Hoch, President and CEO, will make a few remarks about the IMS acquisition. This will be followed by a question-and-answer session, where Louis will be joined by Tom Jewell, Senior Vice President and Chief Financial Officer.

Before we begin, please remember that comments on today's call include forward-looking statements. Forward-looking statements can be identified by the use of such words as estimate, anticipate, expect, believe, intend, may, will, should, seek, approximate or plan or the negative of these words and other similar words and phrases. Forward-looking statements by their nature involve estimates, projections, goals, forecasts and assumptions and are subject to risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements, including risks related to the COVID-19 pandemic and its effect on the economy; the realization and the opportunities of the IMS acquisition; management of the company's growth; the loss of key resellers; the relationships with the automated clearinghouse network, bank sponsors, third-party card processing providers and merchants; the volatility of stock price; the loss of key personnel; growing competition in the electronic commerce market; the security of the company's software, hardware and information; compliance with complex federal, state and local laws and regulations; and other risks detailed in the company's filings with the SEC.

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Now with that, I would like to turn the call over to Louis. Louis?

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

Thank you, Joe, and welcome, everyone. I'm pleased to announce that we have acquired the assets of Information Management Systems. IMS is an established provider of electronic bill presentment as well as other high-value printing and mailing services, serving hundreds of customers representing a wide range of industry verticals including utilities and financial institutions.

The acquisition of IMS is not only expected to be immediately accretive, but it is also highly synergistic, creating opportunities to cross and upsell Usio's core payment facilitation, prepaid ACH services to the IMS customer base through the integration of Usio's proprietary technology including bill payment. Furthermore, it will provide Usio a means to reenter the electronic bill presentment and payment industry, EBPP, which is fundamental to the roots of Usio when we were formerly known as Billserv and was the industry leader for 5 years before successfully exiting that business. In addition, IMS broadens the scopes of services being offered to the verticals currently targeted and served by Usio as there is significant overlap that we believe we will quickly lead to a clear and measurable impact.

The purchase price of \$5.9 million was paid from the Usio's existing cash. The company issued warrants to the 2 shareholders of IMS with a strike price of \$4.23 and a term of 5 years after vesting. The warrants will vest in 3 annual installments of 315,200 each on the first, second, third anniversary of the issue date.

We expect IMS will add over \$13 million in revenue and over \$1 million of incremental EBITDA to Usio in 2021. The business will continue to be run by Sy Green, who has been with the company for 20 years. The business combination, combined with our projected organic growth from our existing business lines, should put us on a pace to achieve significant revenue growth and positive EBITDA in 2021.

For over 20 years, IMS has been providing its customers with innovative first-class bill presentment, electronic document warehousing and large-scale print and mail solutions. In fact, IMS already handles nearly 1 million items per year for Usio.

IMS is based in San Antonio, Texas and has been offering e-bill and statement design, data archiving, hosting, marketing and postage guidance to a wide spectrum of diverse sectors including utilities, telecommunications, financial institution, municipal governments and many more. IMS has deep expertise in the electronic document composition. It employs proprietary technology delivered by an outstanding and experienced technical staff.

The most intriguing aspect of this opportunity is to overlay our user interface and integrate our payment tools to create electronic bill presentment and payment solutions. Usio maintains strong credibility within the EBPP industry, and we continue -- and we still maintain these relationships that date back to our days as an industry leader in that segment.

We've already launched an initiative to develop a new service Electronic Bill Presentment and Payment As a Service. Currently, IMS primarily presents bills on behalf of its clients to their customers, but they do not have a payment solution. Our new service adds that capability through a very simple process similar to any software as a service application. Consequently, Usio will now be able to offer its customers both a bill presentment and electronic payment solution through one unified interface by simply accessing our EBPP service platform and adding it to their existing portal. This will allow IMS customers to electronically remit their payments for bills that they currently receive through IMS. This new service will feature all of our payment options including ACH, debit and credit card processing, Text2Pay and others.

Usio's Electronic Bill Presentment and Payment As a Service will enable customers to collect their money faster, simplify record-keeping and save money. We also see a tremendous joint marketing opportunities cross-selling to each respective customer base. And as the financial services industry increasingly outsources its statement management and other needs, we can now offer all these institutions one of the most sophisticated and fully integrated statement management and EBP solutions in the market today. This ability to offer one-stop shop is increasingly appealing to these customers, our billers.

So you can understand why we're so excited about -- to add IMS to the Usio family. It's been a -- it is an ideal complement to all of our existing operations, products and solutions, all while providing a solid foundation for further penetration of the electronic bill presentment and payments industry. We have long envisioned expansion into this industry as another platform to substantially contribute to Usio's growth stories. And with IMS, we have established a profitable foundation from which to build from. We intend to rebrand IMS to Usio Output Solutions, Inc.

That concludes our opening remarks. And at this time, we'll be glad to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Barry Sine with Spartan Capital Securities.

Barry Sine - *Spartan Capital Securities, LLC, Research Division - Director of Research*

Congratulations. You're kind of back in the saddle on bill presentment again.

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

Thank you, Barry.

Barry Sine - *Spartan Capital Securities, LLC, Research Division - Director of Research*

Wanted to -- I guess this first one is going to be a bit of a soft ball. Obviously, you guys are very, very knowledgeable on bill presentment. Could you give us a little bit of a tutorial on the state of the industry, how it's changed, what the dynamics are, what the challenges might be?

And then secondarily, it sounds to my ears as if you're talking about synergies going both ways, that you can sell payment services to their customer base and then they can sell bill presentment to your customer base, and you're already doing some of that as separate companies. Could you address those 2 areas, please?

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

Yes, sure. The EBPP market has changed since the early days when we were the industry leader. It had 16% of all consumer bills under contract including -- exclusive contract, including AT&T and Time Warner and Sallie Mae and many utilities, Chevron, Exxon, you name it. We have the who's who of clients back then.

In that time frame, it was common for billers to work with just a electronic bill presentment and payment company. Nowadays, they want to have everything through one source. And whoever prints their paper is who they want to manage their electronic bill presentment. And so if we thought if we were going to enter this market, it was crucial to have that print component. And we just didn't want to enter with just print, we wanted to work with a company that had the technology assets for us to deliver higher value with bill presentment. And IMS had that.

So the industry has changed from back when we did it as Billserv to a consolidated model, to more of a biller direct model where you tend to go to the biller's site instead of at your bank. So we've maintained a lot of relationships in there.

The flip side of that is a lot of the companies we bill -- that we provide payments for today are in need of print services or are sending out statements and, in some cases, in very large volumes. We do a lot in the municipalities sector. We have a lot of cities that we work with, and we think there's a lot of great opportunities to resell print into there as well. And the electronic bill presentment payment is definitely a sweet spot for this acquisition.

Barry Sine - *Spartan Capital Securities, LLC, Research Division - Director of Research*

And then synergies from their customers, your ability to sell payment services to their customer base?

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

Yes, definitely. Through electronic bill presentment payment, we're going to be delivering payment services to them. The majority of their customers are utilities in that industry, and then they have some pretty large financial institutions as well, but the utilities is where we'll hit first. We have opportunities to provide prepaid card services to the utilities for refunds, payments, and we have opportunity to provide payments for -- payments of their bills attached to IMS' bill presentment.

Barry Sine - *Spartan Capital Securities, LLC, Research Division - Director of Research*

Okay. And then if I might, just a few questions on the financial impact. I appreciate you've given a guidance on what their numbers will look like over the next year. What has their growth rate been? And that EBITDA margin that you're implying, is that inclusive of synergies? Or is that pro forma, plus you'll see some synergies?

And then below the EBITDA line, I presume there's going to be additional amortization of the purchase price, if you could talk about what that would be to help us out on the EPS impact.

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

Yes, I'll let Tom talk about the second part, but the first part is they are already doing the numbers that we talked about. They're exceeding \$13 million in sales. The last couple of years have been very similar and with very modest growth. They're a private company. And so that number, the revenue number, that's a day 1 number. The EBITDA number exceeded \$1 million, that's also a day number -- a day 1 number for us. And then, Tom, do you want to talk about how we're going to capitalize the acquisition?

Lowell Thomas Jewell - *Usio, Inc. - Senior VP & CFO*

Yes. I mean so we do have a little bit of goodwill that we'll be amortizing and depreciation that we'll be amortizing over about 5 years, and that will be about \$900,000 of the \$1 million of EBITDA.

Operator

Our next question comes from Jon Hickman with Ladenburg.

Jon Robert Hickman - *Ladenburg Thalmann & Co. Inc., Research Division - MD of Equity Research & Special Situations Analyst*

If you would be so kind as to -- I don't understand how you can present the bill and not have a payment. Like you present the bill for the utility, XYZ utility, and then the payment gets processed by some third party. Is that what happens now?

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

Yes. And so when IMS is delivering a statement, the same time they're delivering the statement, they're rendering an electronic version of that statement at the same time. And those electronic versions, they offer to utilities and to all their customers as a service to be -- for them to be able to present it to their customer service reps so they can see a rendering of the bill that actually went out. They can also take that same data and render it from their website.

So in those cases, somebody else is doing the payment. Or in the case of some smaller utilities, they don't even have online payment yet. So that's how the payment is being affected.

Jon Robert Hickman - *Ladenburg Thalmann & Co. Inc., Research Division - MD of Equity Research & Special Situations Analyst*

So if I were in that situation as a customer, I could see my bill online, and there would be some button that would direct me to a third-party payment option. Is that how it works?

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

Yes. In some of the cases, that's true. Some of the cases, there may not even be a payment button.

Jon Robert Hickman - *Ladenburg Thalmann & Co. Inc., Research Division - MD of Equity Research & Special Situations Analyst*

Yes, okay, smaller ones. But then with you guys, the payment, you could do the payment while you stayed on that, on the utility's website or the financial company's website. Is that what you're...

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

Yes.

Jon Robert Hickman - *Ladenburg Thalmann & Co. Inc., Research Division - MD of Equity Research & Special Situations Analyst*

Is that what it's going to move to?

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

So what we're going to -- the way we're going to -- yes. So the way we're implementing EBPP is it's -- you have modules that you can select. You can select just bill presentment. You can select to add onetime payment options. You can select to add reoccurring payment options within your system, all our features, right, Text2Pay. But it's all through a unified service, so that we're not going to be building websites here, but we are going to be presenting the data and the tools for the utilities and other companies to help them manage their consumer experience.

Jon Robert Hickman - *Ladenburg Thalmann & Co. Inc., Research Division - MD of Equity Research & Special Situations Analyst*

Okay. And then so what -- can you educate us a little bit on what's the size of that electronic bill presentment market space these days?

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

I don't have that number on the top of my head, but I can tell you there's a lot more people doing it today than when we were doing it as Billserv. The adoption rates during Billserv were less than 2%. Bills were being paid electronically, and I'm sure the number is widely different now. So...

Jon Robert Hickman - *Ladenburg Thalmann & Co. Inc., Research Division - MD of Equity Research & Special Situations Analyst*

And then when you -- can you talk about margins here versus your margins?

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

Yes. So with their mix of electronic and print, they're going to average about 15% to 17% margins.

Jon Robert Hickman - *Ladenburg Thalmann & Co. Inc., Research Division - MD of Equity Research & Special Situations Analyst*

Okay. And then going back to Tom's comment. Is that about \$225,000, I guess, of extra amortization a quarter? Is that how you get to \$900,000?

Lowell Thomas Jewell - *Usio, Inc. - Senior VP & CFO*

Yes, that's about right, Jon.

Operator

(Operator Instructions) Our next question comes from Brian Kinstlinger with Alliance Global Partners.

Brian David Kinstlinger - *Alliance Global Partners, Research Division - Head of TMT Research, MD & Senior Technology Analyst*

Great. Could you quantify the annual value of the bills? I guess if you processed all of their bills, what did that volume look like? And are you already partnering in any way within that you're already processing any of their bills?

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

So we've known IMS for 5 or 6 years, and we've been interested in putting the companies together for that same time period. We print through them almost 1 million documents a year, majority of those being checks. And so we've been familiar with their service, thrilled with their focus, the customer focus that they have.

And so the quick answer is no. I can't tell you exactly how many documents are in consumers their customer base represents. We're going to be sending out some operational metrics so it can help you understand that new business line for us, but we don't have that answer right now.

Brian David Kinstlinger - *Alliance Global Partners, Research Division - Head of TMT Research, MD & Senior Technology Analyst*

Okay. Yes. Is this mostly a direct sales model? How do they acquire customers? What's the average cost of acquiring a customer? And is this only in Texas for them? Or is it beyond?

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

It's beyond. A lot of them are in Texas. They do have a direct sales group, but the majority of their sales comes from the integrated software vendors who provide sale -- services into utilities.

Brian David Kinstlinger - *Alliance Global Partners, Research Division - Head of TMT Research, MD & Senior Technology Analyst*

And what's the -- do you have -- is there like an average cost of how much to acquire a customer?

Louis A. Hoch - *Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO*

No. I don't know that number.

Brian David Kinstlinger - Alliance Global Partners, Research Division - Head of TMT Research, MD & Senior Technology Analyst

Okay. And now if I look at the 15% to 17% gross margin that you just described, does that tell me that more than half of their business is print? Does it not tell me? I'm just wondering, is that why the margin is low, is one of those 2 businesses electronic versus print much higher or much lower in margin terms?

Louis A. Hoch - Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO

Well, yes. I think you hit the nail on the head. Print is less. And print postage, the first-class stuff, is less margin than the electronic part.

Brian David Kinstlinger - Alliance Global Partners, Research Division - Head of TMT Research, MD & Senior Technology Analyst

Yes. So it's 3 quarters of the business here?

Louis A. Hoch - Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO

I don't have that number.

Brian David Kinstlinger - Alliance Global Partners, Research Division - Head of TMT Research, MD & Senior Technology Analyst

Okay. And then you mentioned -- help me with the history, although I've been following for a long time. You mentioned you exited this business. Can you remind me the rationale at the time? I just forget for exiting the business what size it was for you and how much you generated for, it sounds like, selling the business.

Louis A. Hoch - Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO

You're going to really take me back. So we were Billserv from 1998 to 2003. During that time, we secured more bills under contract than any of our competitors. During that time, we raised \$50 million through -- primarily through private placements, where our competitors raised \$150 million, \$200 million and they weren't able to keep up with us.

We -- nobody in the industry turned to profit because that was so early in the industry. And when 9/11 came and stock markets closed down the capital markets, we weren't able to raise more money. So at that point, we decided to exit. And I'm doing this purely from memory, so I may be off, but I think we ended up selling for right around \$4.8 million with some earn-outs. And American Express has those assets today.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

Louis A. Hoch - Usio, Inc. - Co-Founder, Vice-Chairman, President, CEO & COO

Well, thanks, everybody, for joining. We're really excited about this acquisition. It puts us in a different place for 2021 when you put on the financials of IMS with what our projected organic growth will be for our company next year. Next year is going to be very exciting for us. And again, thank you for joining the conference call.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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