S&P Global
Market Intelligence

PaySign, Inc. NasdaqCM:PAYS

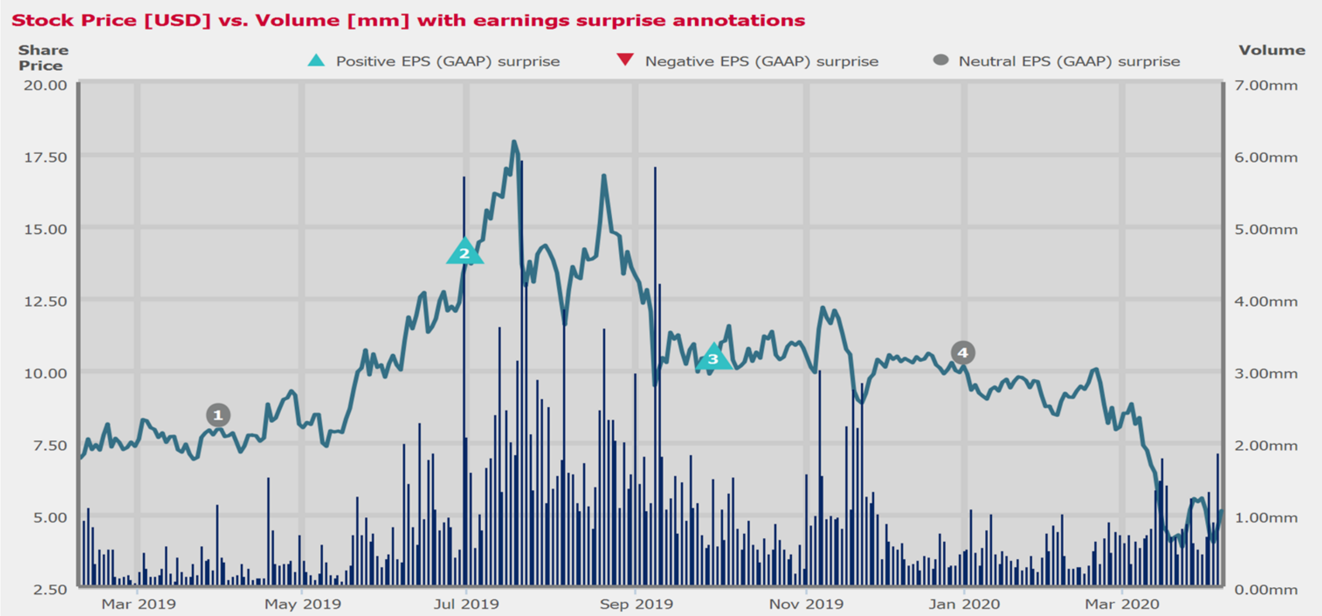
FY 2019 Earnings Call Transcripts

Monday, April 06, 2020 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-			-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	0.04	0.04	0.00	0.05	0.15	0.14	(6.67 %)	0.22
Revenue (mm)	9.78	9.76	(0.20 %)	11.91	34.68	34.67	(0.03 %)	50.84

Currency: USD
Consensus as of Apr-03-2020 4:48 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FY 2019	0.15	0.14	1 (6.67 %)

Table of Contents

Call Participants

EXECUTIVES

Mark Kenneth Attinger
Chief Financial Officer

Mark R. Newcomer
Co-Founder, Vice-Chairman, President & CEO

ANALYSTS

Austin William Moldow
Canaccord Genuity Corp., Research Division

Jon Robert Hickman
Ladenburg Thalmann & Co. Inc., Research Division

Peter James Heckmann
D.A. Davidson & Co., Research Division

Presentation

Operator

Greetings, and welcome to the PaySign 2019 Year-End Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded.

This presentation may include forward-looking statements to the extent that the information presented in this presentation discusses financial projections, information or expectations about the company's business plans, results of operations, the impact of COVID-19, returns on equity, expected gross margins, markets or otherwise make statements about future events, such statements are forward looking. Such forward-looking statements can be identified by the use of words such as should, may, intends, anticipates, believes, estimates, projects, forecasts, expects, plans 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 those such forward-looking statements. You are urged to carefully review and consider any cautionary statements and other disclosures, including the statements made under the heading Risk Factors and elsewhere in our 2019 Form 10-K. Forward-looking statements speak only as of the date of the document in which they are contained, and the company does not undertake any duty to update any forward-looking statements, except as may be required by law.

This presentation also includes adjusted EBITDA, a non-GAAP financial measure that is not prepared in accordance with nor an alternative to financial measures prepared in accordance with U.S. generally accepted accounting principles, GAAP. In addition, adjusted EBITDA is not based on any standardized methodology prescribed by GAAP and is not necessarily comparable to similarly titled measures presented by other companies.

I would now like to turn the conference over to our host, Chief Executive Officer, Mark Newcomer. Please go ahead.

Mark R. Newcomer
Co-Founder, Vice-Chairman, President & CEO

Thank you, Diego. Good afternoon, everyone, and thank you for joining us for a discussion about our full year 2019 financial results. I'm Mark Newcomer, the President and Chief Executive Officer of PaySign. With me this afternoon is Mark Attinger, our Chief Financial Officer.

Before I begin my commentary on the business, I would like to address the delay in the filing of our 10-K. The delay in our filing was due to several rounds of auditor request for additional data, which took several days to complete. I would like to point out that there were no changes to the preliminary financial numbers we reported on March 16. Mark can touch on this in more detail during his discussion.

I'm very pleased to be able to deliver strong results for the full-year performance, even with the miss related to our revenue guidance. For the full year, our revenues were a record $34.7 million, an increase of 48% compared to the prior year. Our full-year net income was up 188% or $7.5 million, also a record, and our adjusted EBITDA was 10.1%, an increase of 106%. I'm very happy with these results and extremely proud of our team and their contributions towards our continued growth.

We experienced strong growth in our existing industry verticals and as we expanded into new verticals. In 2019, we built out a new business line, added 49 new card programs, including 38 in plasma, 7 in pharma and 4 other card programs. And we now have in excess of 2.9 million cardholders on our platform.

I'm especially pleased with the revenue growth in our pharmaceutical programs, which increased from $366,000 to over $7.3 million in just 1 year. With new opportunities opening in the space, we have expanded beyond our long-standing pharmaceutical payment offerings and established the Patient Affordability business line to include other services required by our hub service clients. These new services include pharmacy based co-pay, medical claims processing and payments, centralized billing and payment services as well as other products. You'll be hearing the term hub from us quite often moving forward, as we grow this business line. So to define hubs, hub service providers are companies that pharmaceutical manufacturers use to maintain a connection with the patients during all phases of the prescription delivery process.

Over the past few years, there has been a consolidation of hub service providers. The consolidation in the industry has turned allied companies into competitors, therefore, created an opportunity for us to provide these new offerings to hub service providers that lack or choose not to provide these services in-house. In response to this opportunity, we have made the decision to increase our capabilities to cater to these hub service providers with programs currently onboarded and performing to initial expectations. Over the course of the past year, we have continued to build out this business line and have onboarded new personnel to meet the needs of this unique market. This represented a substantial investment into new software development, architecture and human capital. Drawing from industry experience, we designed, developed and deployed a best-in-class solution to meet the needs of our patient affordability partners. These enhanced capabilities will further our reach into the patient affordability space and allow us to onboard new clients for multiple sectors.

We have continued to build out and strengthen our entire team here at PaySign. In the latter part of 2019, we also increased the bench strength of our executive team with the addition of Matt Lanford as our Chief Product Officer and Kim Sergent as our Chief Marketing Officer. They have been instrumental in creating new products, features and functionality for our clients as well as refreshing our brand. I'm very pleased to have them as part of our team.

I'd like to touch for a moment now on COVID-19 and would like to reiterate that our highest priority remains the safety of our employees, cardholders and customers. We have taken immediate actions to protect our people, customers and business by executing on our business continuity plans. To us, especially important is the main sectors we serve are crucial to the health and well-being of the general public. We have implemented measures to manage potential disruptions in meantime, real-time communications across entire organizations with our clients and cardholders. To date, there have been no work stoppages and no employees testing positive for COVID-19. Of course, we will continue to monitor this situation very closely.

The impact of COVID-19 to our business so far has been minimal, with no apparent effect on our pharma and Patient Affordability business lines, which continue to see excellent growth, and only a slight impact to our plasma business. However, we are expecting at this time to see a continued growth year-over-year in the plasma business. On March 19, 2020, the U.S. Department of Homeland Security released the guidance document that enumerated source plasma donation and pharmaceutical supply as part of the critical infrastructure. Plasma donation centers have been classified as being within the category of essential, critical infrastructure, health care and pharmaceutical supply that is exempted from general lockdown or closure directives.

Looking forward to the other side of the pandemic, 2 things. First is that we expect the economic fallout from the pandemic will lead to an increase in the number of donors as donor compensation can bring an extra $500 a month to frequent donors. And secondly, if plasma collected from people with the COVID-19 antibody is found to be a component of any therapies that would treat the virus, we would expect to see a sizable increase in the number of plasma donations, both from the current donor demographic and the general public.

Looking ahead, we will continue to broaden and diversify our market focus for our card programs, and we'll seek to introduce new products. We are developing new business-to-business solutions, enhancing our customer web and mobile applications and building new pharma patient affordability offerings. We expect continued growth in pharma and plasma and to continue to expand it to new markets.

With regards to PaySign Premier, we continued to refine the product that is offered through one of our plasma clients. To date, we have minimized our marketing expense for the Premier Card as we have chosen to deploy the majority of our focus and resources on the expansion of the previously mentioned initiatives.

Lastly, we will continue to evaluate acquisition opportunities in 2020. We have evaluated several candidates to date. However, there is nothing definitive to share at this time.

Before I turn it over, I'd like to address the question of Dan Henry. As you all know, Mr. Henry has served as our Chairman and as an Independent Director since 2018. On March 25, it was announced that Mr. Henry was appointed Chief Executive Officer, President and as a Board Member at Green Dot Corporation. After a discussion with the PaySign Board and Mr. Henry, it was unanimously decided, there would be no change to Mr. Henry's status with the company. Mr. Henry remains with PaySign as our Chairman and as an Independent Director.

At this time, I'd like to turn it over to our CFO, Mark Attinger, who will take us through the numbers in more detail, and will touch briefly on SOX 404(b).

Mark Kenneth Attinger
Chief Financial Officer

Thank you, Mark. So I'm going to take us through the full year results, provide some variance commentary, touch on SOX 404(b) and give you some insights into quarter 1 performance. And digesting our earnings and the 10-K, I'm sure you've noticed we've disaggregated revenue a bit and enhanced our commentary. As I proceed, references to year-on-year improvements or percentage changes, unless stated otherwise, refers to the full year 2019 as compared to 2018.

Revenue for the year ending December 31, 2019, was $34,666,653, an increase of 48.0% compared to the $23,423,675 the prior year. Revenue consisted of $27.0 million or 78% in support of the plasma industry, $7.4 million or 21% pharma and $0.3 million or 1% in other revenue. Although quarter 4 dollars loaded to card performed as expected, the revenue conversion rate on plasma of 3.42% was down from 3.80% in Q3. This unexpected degradation, combined with lighter pharma spend, contributed to the full year revenue shortfall versus guidance.

Gross profit increased 68.8% to $19.3 million or 55.5% of revenues compared to $11.4 million and 48.7% of revenues in 2018. This 685 basis point improvement was driven primarily to favorable mix towards higher-margin card programs. The operating expenses were $13.1 million, an increase of 47.2% versus $8.9 million in 2018. The increase consisted primarily of $2.5 million in salaries and benefits, $1.1 million in stock-based compensation and a $0.4 million increase in depreciation and amortization.

Benefiting from higher card balances, interest income was $441,000 compared to $140,000 the prior year. Net income for the year was $7,454,319 or $0.16 per basic share, an increase of 188.0% compared to $2,588,054 or $0.06 per basic share the prior year. Fully diluted was $0.14 per share compared to $0.05. Non-GAAP adjusted EBITDA was $10,114,980 or $0.21 per basic share, an increase of 106.2% compared to $4,904,781 or $0.11 per share at the prior year. Furthermore, the adjusted EBITDA margin improved to 29.2%, up 824 basis points from 20.9% in 2018.

We loaded $859 million loaded to the card versus $621 million the prior year, and our revenue conversion rate of gross dollar volume loaded on cards was 4.04% or 404 basis points compared to 3.77% or 377 basis points the prior year. I'd also like to point out that our near final 2020 first quarter pharma net dollars loaded to card increased approximately 70% versus quarter 1 2019 and increased 275% versus the prior quarter loads. This illustrates both the seasonal nature of pharma business and the significant year-on-year growth.

From a balance sheet perspective, consolidated cash, including restricted cash, has increased 43.9% or $13.9 million to $45.6 million compared to $31.7 million at year-end 2018. As a point of reference and a seasonal peak for our current programs, consolidated cash at February month end was $61.6 million. Also, although we haven't completed our reconciliation, we expect our quarter-ending consolidated cash to be approximately $54 million to $55 million, including unrestricted cash of approximately $9.5 million, consistent with year-end.

Working capital increased to $13.6 million compared to $5.9 million at December 31, 2018. The $7.7 million improvement was due primarily to increased consolidated cash, partially offset by an increase in the card funding liability. Our liquidity, as measured by an adjusted current ratio, excluding restricted cash and cardholder funds from both sides of the balance sheet, respectively, reflected 7.9x coverage at year-end 2019, up from 5.4x at 2018.

I'd like to speak for a moment regarding Sarbanes-Oxley 404(b). At the end of quarter 2, our market cap resulted in being classified as an accelerated filer and subject to an independent audit of our internal controls of our financial reporting, i.e., the 404(b). The objective of Sarbanes-Oxley and the COSO framework is to make sure that your processes and controls help to prevent any inaccuracies in your financial reporting. So in preparation, we brought in a third-party advisory firm, as many companies do, to aid us in preparing for 404(b). Subsequently, PaySign and our auditors identified material weakness over internal controls for financial reporting. We take this very seriously and have taken immediate steps to remediate the identified weakness. We added staff to aid in the assessments. We implemented an appropriate separation of responsibilities. We improved our documentation and have strengthened the processes with respect to systems user access and change control. We will continue to make improvements during 2020. Please refer to Item 9A of the 10-K for more information.

In the light of the identified control weaknesses, the auditors were extra diligent in their assessment of the financial audit, leading to an extended duration. This resulted in the completion of our third year with our current auditors. And once again, the audit opinion stated, "The financial statements present fairly in all material respects the financial position of the company as of December 31, 2019". And the opinion further states, "Results of operation's cash flows were in conformity with generally accepted accounting principles". Also, for those of you interested in looking more closely at quarter 4, our financial results, of course, do roll; therefore, full year less September year-to-date, does reflect our Q4 earnings and financial activity.

As we look to 2020, we will refrain from issuing revenue guidance at this time to allow for a further evaluation of COVID-19 and any impact on our business. Pharma and plasma are both defensive in nature, as our CEO has stated, plasma has been deemed critical infrastructure. We do expect to benefit from continued revenue growth and also similar gross margins to 2019. We also expect to experience moderate OpEx growth as we continue to make select and sound investments in our sales, technologies and operations capabilities. Although we have not completed our month-end and quarter-end closing procedures, for the first quarter, we do anticipate revenue of approximately $10.4 million to $10.5 million, up 43% to 45% versus $7.3 million the prior year.
I think that concludes my remarks at this time. I'm going to turn it back over to our moderator to begin a question-and-answer session. Thank you.

Question and Answer

Operator

[Operator Instructions]

Our first question comes from Peter Heckmann with Davidson.

Peter James Heckmann
D.A. Davidson & Co., Research Division

What -- in terms of the revenue conversion rate issue you talked about that popped up in the fourth quarter, can you give us a little bit more background on that? And anything that may have changed in terms of mix and how that -- what that implies for the next couple of quarters?

Mark Kenneth Attinger
Chief Financial Officer

Yes. Pete, thank you for the question. So that revenue conversion rate that I quoted was specifically plasma. And we saw a significantly lower revenue conversion rate for the new centers we brought on in the September 30, all of those turned up at the same time. We did see the loads that we were expecting, in fact, Q4 loads were up a little more than 20% versus the plasma Q3 loads. But the conversion rate on those, due to the behavior of those particular customers and where they were located, led to less interchange revenue and cardholder transaction fee revenue. We have not been able to evaluate that just yet, since we're in our closing procedures for first quarter, to see how that may have changed. We expect that to improve as those performances -- and we did actually make some changes with our partners in banking in Mexico that should help with our overall gross margins on those centers, putting in place a bilateral agreement to improve the cost of ATM transactions that will help with the gross margin on those. But beyond that, I can't look too closely just yet at the revenue conversion rate for Q1.

Peter James Heckmann
D.A. Davidson & Co., Research Division

Got it. That's helpful. And then just as a follow-up question. In terms of investment spend, I'm sure it's a little bit hard to quantify, but can you talk about some of the investment spend that you had in 2019 on things like PaySign Premier, corporate loyalty, generally, items that didn't generate much revenue. And then, how you're thinking about that number for 2020?

Mark Kenneth Attinger
Chief Financial Officer

So I think that our CEO had touched on new hires and the build-out of patient affordability. You also see, as you look at the cash flow statement, you can see our investments in capital expenditure is about $3.2 billion, $3.3 million. So there were investments last year. It was a little higher than I anticipated early in the year of about $2.25 million to $2.5 million. Just to give you a little more insight, as we look to 2020, we've modeled in CapEx of $3.2 million to $3.7 million.

Operator

Our next question comes from Austin Moldow with Canaccord Genuity.

Austin William Moldow
Canaccord Genuity Corp., Research Division

Of the 7 pharma contracts in 2019, how many are those still active or renewed in 2020? And how many new contracts have been signed for the remainder of 2020? And what does the pipeline look like for pharma for the rest of this year? And if there is any impact from the virus?

Mark Kenneth Attinger

Chief Financial Officer

Sure. So with respect to pharma, just to give you a little bit of history, we ended 2018 with 3 programs. We added 7 programs in 2019, taking us to 10. We had 2 programs that ended. So we ended the year 2019 with 8 programs. And in quarter 1, we've added 2 additional programs.

Austin William Moldow
Canaccord Genuity Corp., Research Division

Okay, got it. And can you also repeat the Q1 pharma load growth numbers you mentioned, and what those growth rates exactly related to? And how you expect -- or I'd like to understand better what you expect the cadence of pharma to be through the year?

Mark Kenneth Attinger
Chief Financial Officer

So I'm just stepping back up to my notes. I'm looking back on my comments. The pharma loads for Q1 versus Q1 2019 increased 70%. The loads increased roughly 275% versus the fourth quarter. And this is one of the things that we've continued to reiterate with analysts and those that follow us as they ask questions about the loads and how to translate changes in cash balances into their understanding of our business. As we've talked about before, the pharma business tends to be seasonal since the out-of-pocket for consumers is greatest in the first quarter prior to having met their deductibles. And at that point, you see the pharmaceutical manufacturers and our payment solution standing in and providing that assistance, that co-pay assistance, if you will.

So as I mentioned, the cash balance in February is $61 million. That tends to be a seasonal peak. Last year, it hit a seasonal peak in March. This year, it appears to be, at least for our current customers, hitting that in February. As we look forward, we do have a couple of additional clients that we just onboarded. Those will contribute to this year. And we have several new pharma clients in the pipeline, actually, in contracting, as we speak. So we're expecting some additional wins on the pharma business and that the combination of onboarding new clients along with the slow degradation on seasonality of existing pharma business should net-net lead to strong growth on a full-year basis for pharma. We saw an increase to $7 million and roughly 21% of our business was pharma in 2019. We do expect a solid growth this year. And to give you a little bit of a flavor, let me just drop back down and look at a couple of things that I thought I would share if the questions arose. We are expecting the full year mix to be approximately 65% plasma, 25% to 30% pharma and roughly 5% to 10% other business.

Austin William Moldow
Canaccord Genuity Corp., Research Division

Great. And sorry, one last one, if I could sneak it in. Do you expect the pharma revenue conversion rate to stay roughly the same in 2020?

Mark Kenneth Attinger
Chief Financial Officer

Yes. Don't -- I mean it's hard to predict. It's based on the performance of those programs and exactly how each new program comes on board relative to the current programs. But there's nothing at the moment that indicates that it would change, but I hedge a little bit, up or down, frankly.

Operator

[Operator Instructions]

Our next question comes from Jon Hickman with Ladenburg Thalmann.

Jon Robert Hickman
Ladenburg Thalmann & Co. Inc., Research Division

So my question has to do with, could you give us some idea with -- about the cost of the SOX 404(b) in your audit since it was pretty extensive. I take it that won't repeat itself in Q2, but could you give us some idea of what that cost you in Q1?

Mark Kenneth Attinger
Chief Financial Officer

Sure. So as you can probably imagine, we had to engage our auditors early last year on a regular financial audit. In the middle of the year, after we tripped the higher market cap and became accelerated filer, we signed an additional engagement where they would conduct the 404(b) assessment. If I'm not mistaken, that was somewhere around $70,000 incurred in 2019. And given the extended period of time that we encountered with our auditors in 2020, they upped that by, I believe, about an additional $50,000 in the first quarter.

Jon Robert Hickman
Ladenburg Thalmann & Co. Inc., Research Division

And then the consulting?

Mark Kenneth Attinger
Chief Financial Officer

The third-party advisory firm was $61,500. And that was incurred in 2019. So we've tried to limit that expense and -- go ahead.

Jon Robert Hickman
Ladenburg Thalmann & Co. Inc., Research Division

Sounds like you did a pretty good job. So the other questions I had have been asked and answered.

Operator

Our next question comes from Peter Heckmann with Davidson.

Peter James Heckmann
D.A. Davidson & Co., Research Division

Gentlemen, I just wanted to clarify. You went through a lot of information fairly quickly. But -- so at the end of the first quarter, it sounds as if you had 10. In pharmaceutical payment assistance you had approximately, let's see, 7, 10 -- yes, really 10 at the end of the first quarter, 2 ended in the fourth quarter, 2 were added in the first quarter. Number one, is that correct? And then number two, the pharma value loaded in the first quarter, that up 70% number, that reflects the turn of cash. You kind of gave us the walk, but -- from December to March, but that $55 million at the end of March would represent somewhere around $45 million, $46 million in restricted cash. Was that all correct?

Mark Kenneth Attinger
Chief Financial Officer

Yes. So we ended with $10 million on roughly -- excuse me, we ended with 10 clients, you're right. And that -- the 2 that were added in the first quarter have generated very little activity to date. So those are not really reflected in our first quarter results. And yes, roughly $9.4 million to $9.5 million is unrestricted cash. So the balance is restricted on that $54 million, $55 million you quoted, correct.

Peter James Heckmann
D.A. Davidson & Co., Research Division

Okay, great. And then just in terms of the PaySign Premier, it sounds like you directed some marketing dollars to some other initiatives. In terms of how we see that business rolling out this year, do you feel like there may be opportunities there to grow the business through other affiliates or partners? Or just in terms of near-term returns, you just -- you see relatively more potential on the pharma side?

Mark R. Newcomer

Co-Founder, Vice-Chairman, President & CEO

So as Mark stated, we are marketing it to existing customers in partnership with one of our larger clients. We are continuing to test it, how to best and most economically drive customer conversions before expanding further. However, our focus has been on the kind of the larger opportunities in front of us. But we will continue to work on Premier Card also.

Operator

[Operator Instructions] Our next question comes from Austin Moldow with Canaccord Genuity.

Austin William Moldow
Canaccord Genuity Corp., Research Division

Just 2 more, please. Though other revenues are still small, just 1% 2019 total revenue, can you talk about what card programs are in that? Is it just the DDA cards, which means that revenue is concentrated in Q4? Or are there other loyalty and incentive programs in that, too?

Mark Kenneth Attinger
Chief Financial Officer

Yes. It's a combination of card programs. It's not any single program.

Austin William Moldow
Canaccord Genuity Corp., Research Division

Okay. And can you talk about how those programs in other revenue -- do they have the same -- is there the same dynamic where there are loaded funds at the top and you take the revenue and there's a revenue conversion on that? And is there any color about what kind of -- if what kind of loaded funds are associated with those small programs?

Mark Kenneth Attinger
Chief Financial Officer

So yes, it's a bit of a hybrid. Part of it is transaction processing that we're doing on the card programs. Part of it has dollars loaded to card and a traditional kind of revenue conversion rate, as you've looked at our other programs.

Austin William Moldow
Canaccord Genuity Corp., Research Division

Okay. And last question. If you did see headwinds to the top line from the virus, is there any flexibility there with expense reductions? Or have you tested the model in a sort of worst-case scenario?

Mark Kenneth Attinger
Chief Financial Officer

Yes, absolutely. So definitely have done some sensitivity analysis. One of the questions that we anticipated was around cash burn and cash flows. And in all of our scenarios that we've looked at, we do anticipate being cash flow positive. However, that said, we will look closely at the paycheck loan process available through the SBA that the government's announced, since employers with less than 500 employees can have access to those funds as a contingency. We're also looking at other levers as considerations as well, although we, again, expect continued positive cash flow.

Operator

Thank you. There are no further questions at this time. I'll turn it back to management for closing remarks.

Mark Kenneth Attinger
Chief Financial Officer

So look, it's a difficult time for our country right now and for the world, and we're all digesting what's occurring, and how to protect our families and loved ones and those who we work with. With that said, please make no mistake about it, we remain as focused as ever on executing each day and each week in delivering valuable services to our clients and customers and continuing our growth and profitability. Thank you, again, for your interest, for your questions and your participation in this call. And be safe and have a good evening. And Mark, do you want to add to that?

Mark R. Newcomer
Co-Founder, Vice-Chairman, President & CEO

Yes. Again, thank you, Diego, and thanks, everyone, for joining us today, and we look forward to staying in touch in future quarters. Have a nice day and you all take care and stay safe out there.

Operator
Thank you. This concludes today's conference. All parties may disconnect.