**Paysign Inc**
**2019 Year-end Earnings Call**
**May 7, 2020**

**<u>Presenters</u>**
**Mark Newcomer - President and CEO**
**Mark Attinger - CFO**

**<u>Q&A Participants</u>**
**Peter Heckmann, DA Davidson**
**Austin Moldow, Canaccord Genuity**
**Jon Hickman, Ladenburg Thalmann**

**OPERATOR**
Good day, everyone, and welcome to today's PaySign 2020 First Quarter Earnings Call. (Operator Instructions).

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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 the U.S. generally accepted accounting principles, GAAP.

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Please note this call is being recorded.

It is now my pleasure to turn today's program over to CEO, Mark Newcomer. Please go ahead.

**MARK R. NEWCOMER**
Thank you, (Priscilla). Good afternoon, everyone, and thank you for joining us for a discussion about our first quarter 2020 financial results. I'm Mark Newcomer, President and Chief Executive Officer here at PaySign. With me this afternoon is Mark Attinger, our Chief Financial Officer.

Before I begin my commentary on the business with regards to COVID-19 pandemic, we hope all of you and your families are staying safe during this unprecedented time. We continue to work hard to best ensure the health and welfare of the PaySign team and continue to provide the highest level of service to both our customers and our cardholders.

I remain very pleased with the company's performance and extremely proud of everyone here at PaySign and our exceptional contributions towards our continued growth, which has contributed to strong results on all fronts. For the first quarter, our revenues were a record $10.6 million, an increase of 48 percent compared to the prior year. Net income was $1.5 million, an increase of 77 percent, and our adjusted EBITDA was $2.6 million, an increase of 52 percent.

In the first quarter, we added 2 pharmaceutical programs to the Patient Affordability business line and added several pharma and patient affordability programs to the pipeline. Our pipeline remains robust in all segments. In the first quarter, we began offering digital banking solutions, which include use of the PaySign Premier Card for corporate use, all which is being well received. Our plasma pipeline has expanded and now includes blood and blood product collection centers. We now have in excess of 3.1 million cardholders on our platform.

We did not see much of an effect during Q1 related to the COVID-19 pandemic, although we are beginning to see some effect, which Mark will address during his remarks. That being said, many centers have started to recruit recovered COVID-19 patients as convalescent plasma donors for use in possible COVID-19 therapies. These plasma collection centers are generally located in areas with large affected populations. At this time, about 175 of our centers are recruiting donors for this (inaudible). These donors are compensated at a significantly higher level than standard plasma donors.

Not being affected by the pandemic, we continue to see excellent year-over-year growth in our patient affordability solutions and traditional pharmaceutical programs with no apparent effect from the current pandemic. I remain very confident in the future and – of the future growth and profitability of the company.

As I had shared previously, with new opportunities opening in this space, we have expanded beyond our long-standing pharmaceutical payment offerings and established our Patient Affordability business line to include services requested by our hub service clients, which include pharmacy-based co-pay, medical claims processing and payments, centralized billing and payment services as well as other products.

In the first quarter, we have contributed – we have continued to build out this business line and expand the PaySign team with proven industry veterans. These steps have been instrumental in creating new products, features and functionality for our clients as well as refreshing our brand.

If you haven't had the opportunity to visit our website recently, please visit www.paysign.com. This past Monday, we went live with a much-improved website providing clients, investors and prospects access to relevant information and more effectively conveying our strategy and the composition of our products and offerings.

Looking ahead, we will continue to broaden and diversify our market focus. We will continue to develop new business-to-business solutions to enhance and create new value-added services and continue to build out our Patient Affordability offerings. We remain extremely enthusiastic about the long-term growth of the company, and we'll continue to focus on maximizing shareholder value.

At this time, let me turn it over to our CFO, Mark Attinger, who will take us through the financials in more detail. Mark?

**MARK K. ATTINGER**
So I will take us through the first quarter results, provide some variance commentary and touch briefly on April. Before I begin, I did want to mention that while our results have been released through Business Wire, the issuance to all registered investors by our Investor Relations team has been submitted to NASDAQ, but it appears to be slowed in the distribution by NASDAQ due to volumes. So you should see that come out shortly. As I proceed, references to year-on-year improvements, percentage changes or comparisons to 2019, unless stated otherwise, refers to quarter 1 2020 as compared to quarter 1 2019.

Revenue for the quarter ending March 31, 2020, was $10,576,473, an increase of 46.0 percent compared to the prior year of $7,257,290. Revenue consisted of $7.3 million or 69 percent in support of the plasma industry, a 25 percent year-on-year improvement; $3.0 million or 29 percent pharma, a 120 percent improvement; and $0.2 million or 2 percent in other revenue.

Gross profit increased 51.5 percent to $5.7 million or 54.1 percent of revenues compared to $3.8 million and 52.0 percent of revenues in 2019. The 207 basis point improvement was primarily driven by a favorable mix towards higher-margin programs.

Total operating expenses were $4.3 million, an increase of 42.5 percent versus $3.0 million in 2019. The increase consisted primarily of $0.7 million in salaries and benefits, $0.2 million in outside professional services $0.2 million in depreciation and amortization and $0.1 million as an increase in stock-based compensation.

Reflecting the impact of the reduction in the fed funds rate occurring intra-quarter, our income was just $62,000 compared to $119,000 the prior year. Interest income. Net income for the year was $1,540,965 or $0.03 per basic share, an increase of 76.8 percent compared to $871,671 or $0.02 per basic share the prior year. Fully diluted EPS was also $0.03 compared to $0.02.

Non-GAAP adjusted EBITDA was $2,617,812 or $0.05 per basic share, an increase of 52.4 percent, compared to $1,717,479 or $0.04 per basic share the prior year. Furthermore, the adjusted EBITDA margin improved to 24.8 percent, up 109 basis points from 23.7 percent the prior year.

We loaded $326 million to the card versus $215 million the prior year, up 52 percent. Our revenue conversion rate of gross dollar volume loaded on cards was 3.24 percent or 324 bps compared to 3.38 percent or 338 bps the prior year. Recognizing the unique timing of dollar loads, spend and revenue recognition, the first quarter is seasonally our lowest revenue conversion rate. For example, in quarter 2 2019, revenue conversion rate increased to 4.21 percent. Similarly, reviewing our key indicators for April 2020, the preliminary revenue conversion rate was 4.23 percent.

From a balance sheet perspective, consolidated cash, including restricted cash, has increased $9.3 million or 20 percent to $54.8 million compared to $45.6 million at year end 2019. Working capital ending quarter 1 2020 increased to $14.9 million compared to $13.6 million at year end 2019 and compared to $7.2 million ending quarter 1 2019. Our liquidity, as measured by an adjusted current ratio excluding restricted cash and card funding liability, reflected 5.9x coverage versus 7.9x at year end.

I'd like to touch a little bit further on cash and pick up on the PPPL question from the prior call. Currently, we have $9.4 million in unrestricted cash. We modeled 3 different scenarios versus our baseline plan. We expect to generate cash on a full year basis under all scenarios, adding to an already-strong current cash position. However, we had immediately applied for the Paycheck Protection Program loan and received funds on May 1. After completing our modeling, we determined that we do not have a business need, nor do we project a need. We have, therefore, submitted a bank request to return the funds, nullifying our application and the receipt of the loan.

With respect to April, although we have not completed our closing for the books for the month just yet, preliminary plasma revenue appears down approximately 15 percent versus April 2019. The existing pharma business is performing as expected.

As we look forward, we continue to refrain from issuing revenue guidance to allow for a better understanding of the implications of COVID-19. As we grow the Patient Affordability division and additional lines of business, we expect to benefit from continued revenue growth and similar gross margins to 2019.

I think that concludes my remarks at this time. I'll turn it back over to (Priscilla), our moderator, to begin our question-and-answer session. Thank you.

OPERATOR: (Operator Instructions). And we'll go first to Peter Heckmann from Davidson.

**PETER HECKMANN** I was hoping you could dig in a little bit more within pharma. The 2 campaigns or programs that you added intra-quarter, when might those start? And then as well, you went over some of the new opportunities within Patient Affordability fairly quickly. And if you could go over those a little bit in more detail, and if you have had some early success today in those areas, could you let us know?

**ATTINGER**
Yes. So I'll touch on the 2 pharma programs that Mark referenced and that we referenced on the last call that were added in the first quarter. If you recall, Pete, we talked about ending the year with 8, but adding back 2, getting back to 10. And so those 2 programs that we referenced, one of them is live, but the other one has not gone live. They both started up and have generated a little bit of start-up fees, kind of professional fees to make those programs active, but 1 of them's loading a little bit. The other 1 - is giving themselves a little bit more time before they begin loading. So that's the status of those 2 programs.

With respect to Patient Affordability, our CEO is better suited to answer that.

**NEWCOMER**
Yes. With – in respect to Patient Affordability, we're talking along the lines of pharmacy, co-pay cards and vouchers. I mean, most of what we're providing is in support of our hub service providers and other folks that are providing co-pay sales – and other co-pay sales organizations.

So basically, we're providing tools for them to meet brand needs and the goals of the brands, such as pharmacy co-pay cards and vouchers; virtual debit cards; physical debit cards; medical claims, such as processing of payments of paper and electronic medical claims and patient affordability programs; centralized billing solutions used to deliver solutions to limited network medical practices and to address patient-specific needs, such as travel and/or per diems; and also patient prescriber portals designed to deliver affordability products direct to a prescriber or patient. These portals can show various levels of detail to enhance the patient or prescriber's awareness.

So those are some of – it's obviously a large topic of conversation to cover, but those are some of the – just some of the solutions that we're offering.

**HECKMANN**
Got it. That's helpful. And then whether this is related or not, I thought I'd also heard you said you had started offering digital banking services enabled by the PaySign Premier Card, (inaudible) for corporate accounts. So that would be like for travel or per diem. Is that correct?

**NEWCOMER**
Yes. Digital banking services around – very similar to the PaySign Premier card that we're offering. It would be – it's being offered to other businesses. And that could be – I mean you could think of that in the way of insurance companies or other companies that might have a need for those types of services. For distribution of funds.

**HECKMANN**
Got it. And so generally, onetime use cards? Or was those reloadable?

**NEWCOMER**
Those would be reloadable in most situations or onetime. I mean it depends on the opportunity.

**OPERATOR**
(Operator Instructions). We'll go next to Austin Moldow from Canaccord.

**AUSTIN MOLDOW**
Can you talk about the gross margin in your – in just the plasma segment and how it compares to the last quarter when you noted you had some less favorable transactions that led to a bit of contraction there?

**ATTINGER**
Yes. Give me a moment to take a look at that, Austin. So we did see an improvement in both revenue conversion rate and gross margin for plasma in quarter 1 relative to quarter 4. So we are seeing some normalcy there. We see a – what's interesting is, typically, we see a slightly lower revenue conversion rate in the first quarter as customers receive other tax benefits and other monies that they don't have as much of a need in February, March time frame to convert the revenue that they donate. So you see a little bit lower spend and revenue conversion rate in the first quarter.

However, that said, and I think partly addressing some of the, I would say, lackluster performance in the fourth quarter on the revenue conversion rate for plasma, we actually saw an increase in the first quarter compared to the fourth quarter. And our margin improved several hundred basis points on the plasma business relative to the fourth quarter.

**MOLDOW**
Got it. And I think I heard a comment on blood – working with blood centers. Can you sort of clarify what you meant when you mentioned that, and if it means you're partnering with other kinds of donation centers?

**NEWCOMER**
Yes. In relation to blood collection and blood product collection centers, those are just some new product lines that have come into our pipeline and something we're pursuing. So those are opportunities that are available to the company.

**MOLDOW**
Got you. And one last question, if I can. Can you – you mentioned that, I think, the pipeline is robust for plasma and pharma. Is there any more color you can give to form a contract as you did last quarter, kind of maybe anticipated signings or closing?

**ATTINGER**
Yes. Probably not. I mean what we can say, and we don't like to talk about things until they occur. We indicated to you, when we did our call last, even though we hadn't closed the first quarter, since we had that slight delay in the year-end call, we mentioned to you in the first quarter that we signed new pharma – 2 new pharma clients. If we had something signed in the month of April or the beginning of May, we'd certainly want to go ahead and tell you about that. We have several opportunities that we're well into, but it would be premature to say more than that.

**OPERATOR**
(Operator Instructions). We'll go next to Jon Hickman with Ladenburg.

**JON HICKMAN**
Could I get a little color on the – what you expect for your SG&A levels to kind of grow this year on a year-over-year basis?

**ATTINGER**
Yes, taking a look at it, Jon. I have a general idea, but let me just take a peek one more time.

**HICKMAN**
OK.

**ATTINGER**
I mean, we've talked a little bit about this.

**HICKMAN**
I'm asking because there was a fairly healthy jump from Q1 to – or Q4 to Q1.

**ATTINGER**
Understood. Understood. Yes, I haven't rolled up into a consolidated line. So let me just back – let me take a look specifically at SG&A. I have to make sure I give you halfway decent direction on that. Nothing mysterious about that. And actually, I was going to say 42.5 percent. It looks like it's about 42.6 percent at the moment is what we've got modeled. There's some play in that as we look at different opportunities, and we're making sure we make the investments for the future of the company.

And as Mark (Newcomer) just talked about, the Patient Affordability business, that's a tremendous opportunity, a very significant total addressable market. And we're making investments in people, in infrastructure, in technology capabilities. And so that's something we don't want to be light on to achieve a short-term objective. We want to make the right investments and build it right from the get-go. And so that's what you're seeing in that first quarter. But we should see about kind of in that 40 percent to 45 percent range is what we're projecting for this year.

**HICKMAN**
OK. And then can I ask a little bit about the competitive environment for the plasma? Your main competitor is having some, I don't know, maybe financial difficulties, it looks like. Is anything changing there? Do you see plasma centers unhappy? Or I mean I know you've gathered quite a few last year. Can you talk about that at all?

**NEWCOMER**
I mean I understand what you're saying about our competitor that is having the problems. And I can't really speak too much to that at this point in time. I mean we're going to do what we always do, which is continue to go out and try to take market share. In relation to preempting that with anything further, I think we're going to take a pass at this point.

**HICKMAN**
OK. So you can't comment if it's getting easier or harder to take market share?

**NEWCOMER**
I mean, right now, I don't think it's currently making too much of a difference. I'm sure that it's not wearing well on our competitors, but, yes, I don't have too much else to say about it.

**HICKMAN**
At the very end of your comments about growth for the year, did you say that you expect similar revenue growth year-over-year as in 2019? Is that what I heard you say or not?

**ATTINGER**
No, similar gross margins. We expect to see continued growth and as a separate statement, similar gross margins to 2019. Revenue growth, I think we haven't changed anything. If you go back and look at the prior call, we gave a range on guidance for revenue growth. That was about all we said.

**OPERATOR**
And we'll take a follow-up question from Peter Heckmann with Davidson.

**HECKMANN**
Just a couple of quick follow-ups. Could you give us a projection, maybe a range of what we might see in terms of net new plasma centers this year. You have some in the contract. If you can talk about it, and, if so, kind of the timing that they might come on through the year.

**ATTINGER**
Yes. Don't have a projection. As you know, we added, 32 to 40 centers, something like that last year. This year, at the moment, I think we're sitting with 287 centers, 10 pharma programs and 4 other programs. So that's where we sit right now, at 301 combined programs. Difficult to

project.  We would be guessing.  There's obviously conversations occurring for new business.  In some cases, those can be a handful of centers.  In other case, that can be a large number of centers.  And therefore, picking exactly which item in the pipeline is going to be secured is a bit tenuous.

**HECKMANN**
Got it.  And just in terms of the decline then in terms of – when you were talking about plasma in April, I believe that was a revenue figure was down about 15 percent.  And so would that be almost exclusively units, number of units were down the same amount as revenue?  Or were there other changes in terms of revenue conversion or anything else you should think about?

**ATTINGER**
Yes.  I didn't go back and look specifically at the conversion rates for the month of April last year.  We did look at revenue.  We did look at the current conversion rate for April of this year.  We did look at the quarter and the fourth quarter and the quarter last year, but not specifically at April's conversion rate last year.  So I can't comment on that.  I would tend to think it's probably dollars loaded, i.e., donations being down, and similar conversion rates, and therefore just that trickling through to overall revenue being down.  But – yes, go ahead.

**HECKMANN**
So that's good.  And so, Mark Newcomer, you're the only one on the call, I think, who has a reference for the financial crisis.  But historically, when you've seen spikes in unemployment and a slowing economy, has that generally resulted in core volumes coming through the system?  And if so, does that have any effect on the compensation that plasma centers are giving?  Or does that stay constant volume for those?

**NEWCOMER**
I mean there are several factors that change the compensation that they're giving.  I mean whether or not it's specialized plasma and things like that, it's quite possible that it could raise some of the prices that they're offering as they try to collect more plasma, and they try to – I mean it's a very competitive market out there to collect the plasma.  So – but I can't speak too much to what they will do.  Typically, in these downturn markets, however, that – from what we've seen, we've done fairly well.  And we haven't seen much of an effect.  If anything, it seemed to be an upturn, not a downturn.

**ATTINGER**
Yes.  I mean, obviously, COVID-19 is a completely different animal.

**NEWCOMER**
Well, I think we're still trying to understand and get our hands around the COVID-19.  And until that starts to stabilize a little bit, it's hard to say.

**OPERATOR**
(Operator Instructions).  And I am showing that we have no further questions at this time.  I'll turn the call back for any additional or closing remarks today.

**NEWCOMER:**
Thank you, (Priscilla). Again, I'm very pleased with the strength of this quarter. We will continue to focus on our mission to grow the company. Thank you for your continued interest, your questions and your participation in the earnings call, and you all have a nice evening.

**OPERATOR:** This does conclude today's program. Thank you for your participation. You may disconnect at any time.