PaySign, Inc.
Q2 2020 Results Earnings Call
August 13, 2020

Presenters
Mark Newcomer, Co-founder, Vice Chairman, President and CEO
Mark Attinger, CFO and Treasurer
Matthew Turner - Vice President and Head of Patient Affordability Solutions

Q&A Participants
Peter Heckmann – D.A. Davidson & Co.
Austin Moldow - Canaccord Genuity LLC
Mark Palmer - BTIG, LLC
Jon Hickman - Ladenburg Thalmann

Operator
Hello, and welcome to the PaySign 2020 Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. If anyone should require operator assistance, please press "*" "0" on your telephone keypad. A question-and-answer session will follow the formal presentation. 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 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 and 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, or 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 CEO, Mark Newcomer. Mark, please go ahead.

Mark Newcomer
Thank you, Kevin. Good afternoon, everyone, and thank you for joining us for PaySign's second quarter 2020 earnings call. I'm Mark Newcomer, President and Chief Executive Officer here at PaySign and joining me this afternoon is Mark Attinger, our Chief Financial Officer. We hope all of you and your families are staying safe during the COVID-19 pandemic. We continue to work to ensure the health and safety of our employees while supporting our clients and cardholders and focusing on the long-term success of PaySign.

For the second quarter, our revenues were $6.4 million, a decrease of 25% compared to the prior year of $8.6 million. Net income was a loss of $0.2 million compared to net income of $1.7 million in the prior year. And our adjusted EBITDA was $0.5 million compared to $2.6 million for the second quarter for the prior year.

Our business was impacted more than anticipated by the effects of the COVID-19 pandemic, as well as the restrictions imposed by the various federal, state, and local governments. And in the case of plasma collections, the effects of the CARES Act unemployment benefits. We did see a partial recovery beginning in late May as restrictions began to be lifted as well as more recent improvements related to the expiration of the CARES Act unemployment benefits.

In the second quarter, we added one new pharmaceutical program to our Patient Affordability business line, our first full end-to-end medical claims processing program, and added several new pharma and patient affordability programs to the pipeline. We continue to expand our footprint in the plasma space, adding an additional 49 plasma and blood center locations, expecting to complete go-live by early fourth quarter. One of the--of the 49 centers, 38 are plasma centers with 6 new and 32 mature center transitions from an existing provider, and also 11 blood centers. Subsequently, we have assisted a client with their business continuity plans by onboarding 104 plasma centers.

By early fourth quarter, we are on pace to exceed the number of new card program go lives achieved in 2019. We expect to launch a new product called the PaySign business card. This innovative product is used by medium, small, large businesses to manage their day-to-day expenses as well as distribute funds in various scenarios. They can receive incoming disbursements linked to their other bank accounts and use to pay suppliers, et cetera.

Our pipeline remains robust, strengthened by recent changes in the competitive landscape. We remain extremely optimistic as we positioned PaySign to emerge from these trying times as a stronger company focused on maximizing long-term shareholder value. At this time, I'd like to turn it over to our CFO, Mark Attinger, who will take us through the financials in more detail.

Mark Attinger
Thank you, Mark. Good afternoon or evening. At this time, I will take us through the second quarter results and provide some variance commentary. As I proceed, references to year-on-year changes in dollars or percents or comparison to 2019, unless stated other--otherwise referred to Q2 2020 as compared to Q2 2019.

Revenue for the quarter ending June 30, 2020 was $6,443,065, a decrease of 25.4% compared to the prior year of $8,636,271. Revenue consisted of $4.6 million or 71% in support of the plasma industry, a 30.1% decrease; $1.8 million or 27% pharma, a 16% decrease and $0.1 million or 2% in other revenue.

The consolidated decrease was primarily due to a significant decrease in plasma donations and dollars loaded to card combined with a smaller decrease in pharma revenues resulting from a slowdown in load volume, lower unspent balances, and improved client management. Both industries were impacted by COVID-19.

Including a strong first quarter, revenue for the first half of 2020 was $17.0 million, an increase of 7.1% year-on-year compared to $15.9 million. Cost of revenues were $3.1 million and decreased $460k compared to the same period in the prior year and constituted approximately 49% and 42% of total revenues for the three months ended June 30, 2020 and 2019, respectively.

The reduction in the cost of revenues consisted of a favorable volume variance of $914 thousand due to the decrease in transactions offset by an unfavorable rate variance of $454 thousand resulting from a decrease in higher margin revenue business. Gross profit for the three months ended June 30, 2020 decreased $1.7 million or 34.4% to $3.3 million or 51.3% of revenues compared to $5.0 million and 58.3% of revenues in 2019. The 705 basis point degradation in gross margin resulted from an unfavorable cost of revenues rate variance and a lower consolidated revenue conversion rate.

Total operating expenses were $4.0 million, an increase of 15.9% versus $3.4 million in 2019. The SG&A component increased $389 thousand and consisted primarily of an increase in staffing and therefore, salaries and benefits of $329 thousand; technologies and telecom of $87 thousand; and rent and occupancy of $60 thousand , offset by a decrease in travel of $103 thousand. Depreciation and amortization increased to $111 thousand, and we wrote off some leasehold improvements of $43 thousand.

PaySign's net income for the quarter was a loss of $219,234 or $0.00 per basic share compared to net income of $1,738,792 or $0.04 per basic share the same period the prior year. Fully diluted EPS was also $0.00 compared to $0.03 the prior period.

Non-GAAP adjusted EBITDA for the quarter was $503,989 or $0.01 per basic share compared to $2,593,675 or $0.05 per basic share the prior year. The adjusted EBITDA margin decreased to

7.8% down from 30.0% the prior year. And first half adjusted EBITDA was $3,121,801 or $0.06 per basic share compared to $4,311,154 or $0.09 per basic share the same six-month period the prior year.

Our gross dollar volume loaded to cards was $183 million versus $205 million loaded the prior year, down 11%. Our revenue conversion rate, revenue divided by the GDV, was 3.53% or 353 bps (sp), an increase compared to 324 bps the prior quarter, but a decrease compared to 4.21% or 421 basis points the prior year. The decrease resulted primarily from a lower revenue conversion rate on pharma due to lower unspent balances.

From a balance sheet perspective, consolidated cash, including restricted cash, has increased $2.0 million or 4% to $47.6 million compared to $45.6 million at the end of 2019. Working capital ending Q2 2020 increased to $14.4 million compared to $13.6 million at year-end 2019 and compared to $9.5 million ending quarter two 2019.

Our liquidity, as measured by an adjusted current ratio, excluding restricted cash and the card funding liability from both sides of the balance sheet, reflected 6.8x coverage versus 7.9x at year-end. Operating cash flow was $4.3 million for the six months ending June 30, 2020.

Looking to the remainder of the year, while we have seen a partial recovery related to the easing of government restrictions in the latter portion of the second quarter, we anticipate similar results for the current quarter, followed by an upturn in Q4, resulting from onboarding a number of new client programs. The Q4 additions coupled with a very strong pipeline and some anticipated COVID relief, give us confidence in our projections to return to our growth trajectory in 2021.

That concludes my remarks. At this time, I'll turn it back over to our moderator, Kevin, to begin the question-and-answer session. Thank you.

Operator
Thank you. We will now be conducting a question-and-answer session. If you would like to be placed in the question queue, please press "*" "1" on your telephone keypad. A confirmation tone will indicate you line is in the question queue. You may press "*" "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing "*" "1." One moment, please while we poll for questions. Our first question today is coming from Peter Heckmann from Davidson. Your line is now live.

Peter Heckmann
Good afternoon, everyone. Thanks for taking the question. You noted the end of the CARES Act and the stimulus that went to individuals ended at the end of July. I don't know how real time your data might be, but can you talk about maybe the trends that you've seen most recently, the most recent trends that you can talk about in terms of year-over-year decline in volumes?

Mark Attinger
Yes. So at the--in the month of June, we saw a little bit of a pickup relative to April and May, but nothing material, but it did firm. The May looks to be the low watermark in our results, and that appears to be the case as we look to kind of early indications on how July has performed, which we're still closing the books on just getting through this quarter. July has picked up a little bit from June. But again, as we stated, I think that the year-on-year and the quarter three will be similar, a little bit better than quarter two, but more similar than divergent from quarter two. We do expect a strong fourth quarter.

Peter Heckmann
Got it. Got it. And then can you talk about some of the dynamics you noted as regards to the pharma business? I understand you have fewer prescriptions filled, but the improved client program management comment and just, you know, some of the dynamics within that and whether or not some of those are going to be longer-lasting than just the pandemic.

Mark Attinger
Yes. Good question. I'm going to actually introduce Matt Turner. He is our Vice President and General Manager for the--Head of the overall Patient Affordability Program. And he can probably talk to you on what he's seeing.

Matthew Turner
Yeah. Hi. So I think we obviously saw a little bit of a downturn in the number of patients that are going to the doctor that are going to be accessing new therapy. So you know, as people are laid off, as the job market is more uncertain, people are not going to be spending as much money in the healthcare area as far as going to the doctor, getting on newer high-cost drugs. Patients that are already on therapy, most likely already have a prescription that's, you know, available for the next 12 months. Doctors are a little more lenient as far as calling in a refill without having to have the patient show back up in the doctor's office if they know they can't afford it. So you know, I think as the recovery continues, we'll continue to see an acquisition of new patients, which will result in higher claim volumes on our products.

Peter Heckmann
Okay. Okay, that's helpful. But in terms of the program management, that doesn't indicate any increase shift of the business--of the underlying business model in pharma?

Mark Attinger
An increasing shift in the business itself resulting from this, like does it change our position and our product set? Can you just clarify your question maybe a little better?

Peter Heckmann
(Inaudible) program, and I think you said you added several. I'm just curious how some of those programs are coming in. You're relatively larger, relatively smaller and what type of fees they are generating.

Mark Attinger
So we have 11 pharma programs today and 3 of those 11, including 1 new one that was added in the second quarter, 2 that were added in the first quarter. And if you recall, we ended last year after two programs expiring, we ended with eight last year. So we're sitting with 11 now. 3 of those 11 are in the non-buy and bill space, and Matt can speak to kind of size and what's in the pipeline perhaps.

Matthew Turner
Yes. So on the co-pay side, the transactional volumes are low on the co-pay side. And when you're talking--I believe you had a question around the program management fee. So that tends to be a smaller amount on the buy-and-bill side as far as what the revenue percentage is and the transactional fees are what make up the difference. In the smaller co-pay or pharmacy-based products, it tends to be flipped where the management fees make up a majority of the revenue and then the transactional pieces are a smaller portion of that.

And as far as the pipeline is concerned, we--we're very confident with the pipeline that we have right now moving into the latter part of this year and moving into next year as we've had a substantial amount of opportunities to put in our--put in our hands, and we think we're going to be able to pull those through into next year.

Peter Heckmann
That's great. I appreciate it. I'll get back in the queue.

Operator
Thank you. The next question is coming from Austin Moldow from Canaccord Genuity. Your line is now live.

Austin Moldow
Thanks for taking my questions. You mentioned a little of the COVID impact on pharma. But was the pipeline for the Pharma segment impacted or any, you know, contracts delayed or deferred indefinitely?

Mark Attinger
Not indefinitely. We did have one clients that we--one of the two clients that we communicated with you on from the first quarter that, while we had some start-up fees, we actually only recently began funding into that client. So they seem to have taken a pause and got some temperature before they rolled that program out.

Many of those programs require that the manufacturers and the representatives on behalf of manufacturers can get out to the physicians and educate and onboard physicians as part of that so that those physicians are actually offering their biologics and their medications for the conditions of those patients. And when you can't travel, that made them take a pause and slow down, but nothing has suspended any clients. And as Matt indicated, the pipeline is very strong.

Mark Newcomer
The RFPs have continued to come in. And yeah, correct.

Mark Attinger
Preemptive as well as RFPs.

Mark Newcomer
Yes, absolutely.

Mark Attinger
Combination.

Austin Moldow
Got it. Got it. Can you elaborate a little more on the revenue conversion rates. but in the individual segments, how they trended on a like-for-like basis or what the major impacts were on those individually?

Mark Attinger
Sure. So the revenue conversion rate on the plasma side was actually stronger than the first quarter, the revenue conversion rate on the pharma side while it was better than the first quarter, typically it picks up markedly in the second and third quarter as loads start to come down, but you still have projected money left on card rates, kind of settlement income that you expect when those programs are to expire. And the cost of sales on those as well as the revenue conversion rate on those, since loads are descending, tends to, just to the way ASC 606 works, tends to increase your revenue conversion rate in subsequent quarters until you get back to the first quarter.

In this particular case, what we saw is with loads descending and also customers using up those remaining balances and the program management of those funds being tighter, we had to bring down our projected left on card forecast. And therefore, just due to revenue recognition, that resulted in lower conversion rates.

Austin Moldow
Got it. And my last question is on expense management. Can you talk about your expense management in the quarter, specifically and maybe for Q3, as you're kind of coping with lower topline?

Mark Attinger
Yes. Good question, Austin. So we did take some solid measures to reduce some expenses that were not essential, to limit all travel unless it was revenue producing, and to suspend hiring unless it was going to be contributing to critical infrastructure or to topline growth. We also established a new banking agreement, which gave us some favorable pricing. And these were all levers that we identified essentially going into the forecasting -- budgeting process for the year and kind of executed those during the second quarter. And that allowed us, as you can see to kind of moderate that what had been a growth rate in that area.

That said, we do continue to invest in people and in capabilities to make sure we can execute on all of the pipeline and business products that we're implementing. So I do think we'll see a little bit of a pickup in the third and fourth quarter on the total OpEx, but we are being very cautious with our spend right now.

Austin Moldow
Okay. Thanks for taking my questions.

Operator
Thank you. Next question today is coming from Mark Palmer from BTIG. Your line is now live.

Mark Palmer
Yes. Thank you. And thank you for taking my questions. You know, first of all, as you mentioned, there have been some recent changes in the competitive landscape, obviously, Wirecard's going through its saga. If you can talk about how many centers could potentially be coming up for bid during the balance of 2020 and then into 2021, such that you'd have an opportunity to go after those?

Mark Attinger
So I'm going to start and I think, Mark Newcomer wants to comment on this. I am going to--I'm going to basically say that, look Wirecard North America is a solid organization. They continue to do a great job retaining clients. We are competing with them on the plasma business and we have had some success in building our entire plasma business at their expense.

That said, it's hard work and the numbers that we quoted, which Mark can speak to, many of those are takeaways. But there isn't a, you know, a clear roadmap on how other business from any competitor might be in our--in our future. So we're going to continue to work hard, do what we do well as a processor in a very nimble and capable company, but, you know, nothing clear on the roadmap. But Mark, you're probably much more suited to answer that.

Mark Newcomer
Yeah. I mean, obviously, we're actually talking with many companies right now. The number of centers range from smaller to larger. Though you know, we remain in talks and that's about all I can comment at this point in time. But you know, we look at it as a positive opportunity for us.

Mark Palmer
Thank you. And just from a housekeeping perspective, what is--was the total count on centers at the end of the quarter? And what would you estimate your market share is at, at the end of the quarter? And I'll get back in the queue.

Mark Attinger
Yeah, give me just one moment and I'll get back on track here. So there--we currently have 290 plasma centers, 11 pharma programs, and 4 *[correction 6]* other programs for 307. That's essentially up seven from the prior quarter and that represents--I think, it's roughly 38% right in that ballpark.

Mark Palmer
Thank you.

Operator
Thank you. The next question is coming from Jon Hickman from Ladenburg Thalmann. Your line is now live.

Jon Hickman
Hi. Thanks for taking my questions. Can you--can you explain what these 104 centers are in support of a client's business continuity plan? What does that mean?

Mark Newcomer
What that means is that we can't tell you that those 104 centers are going to go-live. It's really up to the client and what they make--and what decision they make in the end. They were nervous in respect to, you know, what's going on in the world and what's going on with one of their service providers and, therefore, asked us to provide a continuity plan and--which we did.

Mark Attinger
So yeah, I think it's important to point out that all of those centers have received card product and can go-live immediately the day they make that decision. The technology, the card product, the terms and conditions, all of the packaging is in each site.

Jon Hickman
Okay. But those 104, they don’t have anything to do with 49 centers that need to go-live?

Mark Newcomer
They do not. That's correct.

Jon Hickman
Okay. So 49 is a pretty healthy percentage above what you are doing right now. Okay. Okay, so that was actually my--I’ve--my other questions have been asked and answered.

Operator
Thank you. As a reminder, that's "*" "1" to be placed in the queue. Our next question is a follow-up from Peter Heckmann from Davidson. Your line is now live.

Peter Heckmann
Great. That last answer was helpful. So no revenue related to those 104. On the 49 that have been won and are going on--onboarded, I think that's about 15%, 16%, 17% year-over-year increase. So in order for the third quarter to have plasma perform the same in the third quarter--the second quarter with those new units, you'd have to expect donation volumes to be down more, which doesn't seem to foot with, you know, some of the things as we're opening up. So is there--is there something else about those new centers in terms of how they might ramp up that might be slower or maybe they're more backend loaded, where you just don't have the benefit of any of them in the third quarter?

Mark Attinger
Yeah, more of the--more of the latter. Also, just to clarify, Mark, how many of those were blood centers?

Mark Newcomer
11.

Mark Attinger
11 are blood. Those blood have the equivalent roughly of about two centers. So the plasma generate more load volume and more revenue. And then you have--you hit it on the head there, we will be a little bit more back loaded, but should be by the October 1, all 49 centers should be--should be onboarded.

Mark Newcomer
Onboarded, that's the schedule.

Mark Attinger
That's the schedule. So there's a specific rollout of exactly when the centers go-live by week, essentially. But most of that is back loaded.

Peter Heckmann
Got it. Got it. Okay. And so we'll continue to monitor and monitor the public traded companies, but if we see more recovery, rebound in donation volumes, then, you know ,we should suspect that--or expect that you'll see kind of the same rebound.

Mark Attinger
Absolutely.

Peter Heckmann
Great. Thank you.

Mark Attinger
You bet.

Operator
Thank you. We’ve reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

Mark Newcomer
Yeah. Thanks, Kevin. Again, although our business was impacted by the effects of COVID-19 pandemic, we believe that we have made significant strides that will enable us to resume our growth trajectory in 2021 and beyond. Thank you for your continued interest, your questions, and your participation in this earnings call. Stay safe and have a nice evening. Thank you.

Operator
Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.