Paysign
Paysign Third Quarter Earnings Call
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Presenters
Mark Newcomer, Co-Founder, Vice Chairman, President and Chief Executive Officer
Mark Attinger, Chief Financial Officer and Treasurer

Q&A Participants
Austin Moldow – Canaccord Genuity
Peter Heckmann – D.A. Davidson
Michael Diana – Maxim Group
Graham Hickman – Ladenburg Thalmann and Company

Operator
Hello, and welcome to the PaySign 2020 Third Quarter Earnings Conference Call. At this time, all participants are in a listen only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance, please press star, zero, on your telephone keypad. As a reminder, this conference is being recorded.

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It is now my pleasure to turn the call over to Mark Newcomer. Please go ahead.

Mark Newcomer
Thank you, Kevin. Good afternoon, everyone and thank you for joining us for PaySign's third quarter 2020 earnings call. I am Mark Newcomer, President and Chief Executive Officer. Also on the call with me today 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 focus on ensuring the health and safety of our employees, while supporting our clients and cardholders, and stay committed to the long-term success of PaySign.

The COVID-19 outbreak has had and will continue to have an adverse effect on the company's results of operations. Given the uncertainty around the extent and timing of the potential future spread or mitigation of COVID-19, and around the imposition or relaxation of protective measures, management cannot reasonably estimate the impact of the company's future results of operations, cash flows or financial conditions. Although we are disappointed with the quarter's financial results, the company did have significant wins in pharma, plasma, as well as in new business lines.

We have integrated with a mid-sized hub provider and are completing integration with a Fortune 500 hub company, paving the way for additional patient affordability and clinical research solutions programs. We have three new co-pay programs that will launch in December. We are executing extremely well in the Pharma space, concentrating our commercial strategy on client satisfaction through a consultative approach. Based on the performance and client satisfaction, we have recently expanded the small to mid-sized voucher program five-fold. We are confident with our product offerings, management, sales and operational teams, which will lead to bigger wins in 2021.

26 of the 49 centers that were to be completed in October are now going to be completed in December due to client delays. The implementation process of these centers has begun, and we'll conclude the go-live of all 49 plasma and blood collection centers previously mentioned in December. We have 304 donation centers at the end of Q3, up from 290 in Q2. Subsequently, we have gone live with six additional centers and have three more centers ready for implementation. This along with the aforementioned 26, brings the total number of centers to 339.

Looking ahead, we're expecting to see an increase in new center openings from our plasma clients over the next 18 months to 24 months. We continue to see higher donation dollar amounts, resulting from increased donor incentives and collection of COVID-19 plasma. Our pipeline remains robust in the plasma space.

This quarter, we also launched a new product line, the PaySign business expense card. We have signed two new clients, which are currently in the implementation phase and expected to go-live later this year and first quarter of 2021. This product is targeted to small and medium-sized businesses, including sole proprietors and the self-employed, as an efficient way for management to stay in control while giving their employees to contractors the ability to pay for business-related expenses.

At this time, I would like to turn it over to our CFO, Mark Attinger, who will discuss our third quarter results in detail.

Mark Attinger
Thank you, Mark. Good afternoon, or evening. At this time, I'll take us through the third quarter results and provide some variance commentary. As I proceed reference to year-on-year changes in dollars or percent, or comparisons to 2019 unless stated otherwise, refers to Q3 2020 as compared to Q3 2019. Revenue for the quarter ended September 30th, 2020 with a negative $0.2 million, a decrease of $9.2 million compared to the prior year of $9.0 million.

Plasma revenue consisted of $5.2 million, a decrease of 25% compared to the quarter three 2019 and an increase of 13% compared to the quarter two 2020. Pharma revenue was a negative $5.4 million. Both industries were impacted by the novel Coronavirus and the incident of the related disease COVID-19.

The Pharma revenue decreased, included a $6.3 million adjustment for a change in accounting estimate in the third quarter, related to our recognition of settlement income based on substantially different performance indicators observed, trends regarding program management, and new information available in dollar loads and spending patterns, all of which were different than our historical experience. This change in accounting estimate resulted in the company constraining revenue in accordance with ASC 606, by changing its estimate of breakage to the remote method of revenue recognition for settlement income whereby the unspent balances will be recognized as revenue at the expiration of the cards and the respected program. This has resulted in the reversal of all previously recognized settlement income for current Pharma programs.

Revenue excluding this change in accounting estimate in quarter three was $6.1 million, a 4.7% decrease from the prior quarter, primarily resulting from the lower settlement income offset by a 13% quarter-on-quarter increase in plasma. Revenue for October was approximately $2.3 million. Cost of revenues were $3.3 million and decreased 10% or $360,000 versus the year ago period. The decrease was primarily due to the decrease in transactions, offset by an unfavorable rate variance resulting from a decrease in higher margin revenue business.

Gross profit for the three months ended September 30th, 2020 decreased $8.8 million to a negative $3.4 million due to the reduction in revenue and the disproportionate decrease in cost of sales. Total operating expenses were $5.0 million, an increase of 62% compared to 2019; or a

40% increase excluding charges in the quarter of $659,000 for intangible impairment, legal fees pertaining the mergers and acquisitions activities. I should say, and legal fees pertaining to mergers and acquisitions activity. The remaining increase was primarily related to an increase in staffing and compensation, professional fees, stock-based compensation, technologies and telecom, depreciation, amortization, and rent costs, slightly offset by a decrease in travel. Additional granularity can be reviewed in the 10-Q MD&A section.

PaySign's net income for the quarter was a net loss of $6.2 million, or a negative $0.12 per basic share, compared to a net income of $3.0 million or $0.06 per basic share the same period the prior year. Diluted EPS was also a negative $0.12 compared to $0.05. Non-GAAP adjusted EBITDA for the quarter was a negative $6.7 million or a negative $0.14 per basic share, compared to $3.3 million or $0.07 per basic share the prior year. The nine month adjusted EBITDA was a negative $3.6 million or a negative $0.07 per basic share, compared to $7.6 million or $0.16 per basic share in the same nine month period the prior year.

Our gross dollar volume loaded to cards was $212 million versus $210 million, up 1.2% versus the prior year, and up 16.3% compared to $183 million the prior quarter. From a balance sheet perspective, consolidated cash of $55.5 million including restricted cash, has increased $9.9 million or 22% compared to the $45.6 million at year-end 2019. Unrestricted cash was $7.5 million, compared to $7.6 million at the end of quarter two. Working capital ending quarter three 2020 was $7.3 million compared to $13.6 million at year-end 2019, impacted by the change to the card funding liability, resulting from the settlement income change in the quarter three.

Our liquidity, as measured by an adjusted current ratio, excluding restricted cash and the card funding liability, was 4.3x times coverage compared to 7.9x times coverage at year-end 2019. We remain with no debt on the balance sheet and are adequately capitalized for the coming 12 months. 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'd like to be placed in the question queue, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, 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 star, one. Once again, that's star, one, to be placed in the question queue. One moment please while we pull for questions.

Our first question today is coming from Austin Moldow from Canaccord Genuity. Your line is now live.

Austin Moldow
Okay. Thanks for taking my questions. On the Pharma adjustment, in addition to changing the accounting to recognize revenue at card exploration, does the comment you made on changes and performance indicators mean programs are managing their unspent revenue more efficiently now?

Mark Attinger
Yes, that's correct, Austin. Sorry, I was on mute.

Austin Moldow
Okay. How should we factor that into our estimates going forward? And is this something that all of the different programs have made a meaningful change toward, or is it just one or two large ones? And what do you think sort of triggered the recent change?

Mark Attinger
So I would kind of refer to the statements that essentially, the evaluation of the performance indicators and the revenue trends, were substantially different than our experience. And that data came about in the third quarter. And so by definition, if the ending unspent balances are less predictable as in accordance with ASC 606, you must constrain revenue fully to moving to the remote method of accounting versus the ratable method.

Austin Moldow
Okay, got it. Does adding back that $6.3 million adjustment get us to or close to a Pharma revenue number comparable to historical periods?

Mark Attinger
That would be correct. So I think I mentioned during the call, that prior to that adjustment, revenue would be approximately $6.1 million, which would be down 4.7% in the quarter compared to the prior quarter. And that's lower settlement income as well as higher, partially offset by higher Plasma business.

But I caution you a little bit because we have moved to the remote method. And frankly, what that says is, we don't have the predictability of the unspent balances. And so that's what requires that when you can no longer predict it in your models, and you can't assure that no revenue will be reversed, you are required to constrain the revenues fully and move to remote method.

Austin Moldow
Okay. On the revenue conversion rates, any commentary you can provide on the like-for-like changes in each of the segments?

Mark Attinger
Yeah, I apologize, Austin, I do not have the segment breakout on the revenue conversion rates handy with me. And we can do some offline detail into that category further. I didn't segment that out for this particular call, and I probably should have.

Austin Moldow
Okay. And then my last question is on Plasma. What have you seen industrywide for Plasma volume trend year-over-year or maybe sequentially from last quarter?

Mark Attinger
So, I mean the industry as a whole is still down. But what we've seen is the percentage, and I think this is somewhat indicative in the industry from the press releases that we've been reading probably just like yourselves, is that when we look at, for example, and we talked about this previously. May was our low water mark. That was our lowest plasma month of the year.

And when we compare ourselves in May to the prior year, and we compare ourselves now in July, August, September and even October to the prior year, the year-on-year comparison is improving but it's still down approximately 20% in the most recent month compared to the prior year. But as we indicated for the quarter, Plasma is down by 25% on revenue. But in the most recent month, it's continuing to get better and better, relatively, to the prior year.

Austin Moldow
Okay, understood. Thanks very much for taking my questions.

Operator
Thank you. As a reminder, that's star, one, to be placed in the question queue. Our next question is coming from Peter Heckmann from DA Davidson. Your line is now live.

Peter Heckmann
Hey, good afternoon, everyone. So in terms of how you'll think about Pharma revenue going forward, for those campaigns that required estimates for revenue recognition, should we expect to see a large amount of revenue recognized in the fourth quarter every year for, I guess, on annual programs that have started? Or will it be, I mean, I guess, my perception was that most of the plans were annual, it went January to December. Are there other campaigns that would have different start and stop times?

Mark Attinger
So the latter, Pete. We have programs ending in the first quarter, in the second quarter, and at the end of 2022, and in differing months as well. So the programs were secured at different points in time and they typically have a two year life. And so the revenue will be recognized when those programs end.

Peter Heckmann
Got it. Can you talk about how many, then, Pharma campaigns you had at the end of the quarter? And then talk a little bit about some of the prediction of affordability and clinical research opportunities that you mentioned planning more recently?

Mark Attinger
Sure. So at the end of September, we actually finished with a total of 11 Pharma programs. And of those 11, three of them are in the co-pay space and the other eight are programs that would have had, and do have, and will have settlement income that will now be recognized at the end of those programs. But in Mark's (CEO) comments, and I'll let him comment a little bit further, we have been successful signing three additional co-pay programs that are preparing to go live, and those were actually signed in October. But Mark, do you want to add to that?

Mark Newcomer
Nothing more than that they're expected to go before the end of the year. And obviously, we have the business line and the business expense card product line, which is commercial (INAUDIBLE) that's going to obviously pay us little more interchange. And we're looking for to that as well.

Peter Heckmann
Okay, okay. So just to define the nomenclature, when you say co-pay, that's the type of campaign where you're going to paid more on a fixed rate basis? There is not uncertainty of how much cash would be left on the cards at the end?

Mark Newcomer
Yeah, more transactional in nature, more transactional in nature versus settlement income. Now keep in mind, those programs that have settlement income still have monthly management fees, have load fees, and earn interchange. And so those are still very profitable programs and you still have them, and you still have settlement income, you just recognize it at the end. So just wanted to paint that picture for you.

Peter Heckmann
Got it, got it. One last question before I get in the queue. In terms of the other programs, I think you had said at the end of the second quarter, you had something like six. Where would you have been at the end of September? And then have you signed any of these additional business T&E type programs since that time?

Mark Attinger
So at the end of September, just to be crystal clear, we have 304 plasma programs. And that included 14 new Plasma programs in the quarter. We had 11 Pharma, we had seven others, up from four. And that seven was four new corporate incentive programs, less one program that ended. So we have a total, at the end of September, of 324 programs.

But as Mark (CEO) mentioned to you, Plasma should end the year with 339. And after the end of September, we signed those three additional programs we just referenced in Pharma, so that gets us to 14. And we also have a pretty active pipeline on other new programs, two of which were actually signed in the fourth quarter, bringing other to nine from seven. So essentially, based on what we know right now without securing any new business in the pipeline, and again, under the assumption that the things that Mark indicated on the Plasma side, take us to 339 and we get those executed in the fourth quarter, we'll increase from 324 programs in September to 365 programs in December.

Peter Heckmann
Got it. Got it. That's very helpful. I'll get back in the queue. Thank you.

Mark Attinger
You bet.

Operator
Thank you. As a reminder, that is star, one, to be placed in the question queue. Our next question is coming from Michael Diana from Maxim Group. Your line is now live.

Michael Diana
Okay. Hey, Mark Attinger. I think you said in October, your revenues were $2.3 million. Is that using the new method of recognition or the old?

Mark Attinger
That is the new method of recognition and we will only talk new going forward. And all results are GAAP and reflected in the Q and in the press release are entirely GAAP, with the exception of the adjusted EBITDA table in the very back exhibit of that press release.

Michael Diana
Okay, great. Thank you.

Mark Attinger
But yeah, $2.3 million is for the new method.

Michael Diana
Thank you.

Mark Attinger
You're welcome.

Operator
Thank you. Once again, that's star, one, to be placed in the question queue. Our next question is coming from Jon Hickman from Ladenburg Thalmann. Your line is now live.

Graham Hickman
This is Graham Hickman actually on for Jon. How much variability, as you're talking about this evolution in 324 programs up to 365, can you give us a sense, is there a lot of variability in contractor program size? Or I guess, kind of, can you put some range around that for us? And then secondly, kind of following up to an earlier question, it seems like with this new revenue recognition method makes the business a bit more difficult to forecast. So I guess, what would need to change or when might you feel comfortable giving some sort of guidance again? Thank you.

Mark Attinger
Yeah. I mean those are both really good questions, Graham. First of all, there is quite a bit of variability between a new deal that is secured. Not so much on the Plasma side. We have a much better read on those, and given the number of centers, they tend to be a little bit closer in size. But when you look at the non-Plasma business, and in particular the corporate incentive programs like the business card program, they are quite disparate in size. And could be real contributors in 2021 to where we're headed.

So there's quite a bit of variability. And it would be very difficult on a call like this, and for us, and we probably wouldn't any ways to give too much visibility due to, frankly, the uncertainty of how those will perform. Because you're basing it on what you're learning in the contracting process from your client, and as you're going live and then you're observing performance.

Graham Hickman
Right, right. Okay.

Mark Attinger
And then on your second question, remember that these programs that we have that have historically had settlement income, are of differing sizes and do have expiration dates. As we begin to work on new business on the Pharma side, the team is having tremendous success in new programs that are priced differently and where our earnings are coming from different revenue streams than the reliance upon money left on card. And that's more of a partnering outcome of that approach.

Therefore, we see that revenues will be much more predictable than they have been. Other than, too, I think what you're alluding to, the uncertainty in the coming 12 months to 24 months on the settlement income that you recognized all at the end when those programs conclude.

Graham Hickman
Yeah, I guess that's what I'm getting at is kind of, you mentioned that there are management fees, load fees. And I know there's kind of diversification happening. So, is it, kind of, fees, settlement needs to become a smaller percentage and then you'll feel comfortable kind of

putting a range around what the range of outcomes could be? Is that kind of how you're thinking about it, or maybe correct me if I'm wrong there?

Mark Attinger
I think that's right. I mean we'll still make estimates for what we think that breakage might be at the end of those programs, but we don't have as much visibility, and therefore had to constrain revenues to be in compliance with ASC 606. It's become less predictable. So we will be very conservative in those estimates.

And the bigger challenge I see, and based on Mark's comments on this as well, but the bigger issue I see is the uncertainty around COVID-19, and how that affects prepay business and the Plasma business. That' more of a challenge than projecting based on what we see in the pipeline and based on what we are executing on right now.

Mark Newcomer
Yeah, and unfortunately, to Mark's point, we don't have a crystal ball. So that does make it very difficult for us. We look towards the future very much, hoping that the vaccine comes out in a timely manner and that helps reduce the closures of various states. So it's something we continue to keep an eye on. But it's just hard to pinpoint what's going to happen with that.

Graham Hickman
Right. Okay, thanks. I'll jump back in.

Operator
Thank you. Once again, that's star, one, to be placed in the question queue. Our next question is a follow-up from Peter Heckmann from DA Davidson. Your line is now live.

Peter Heckmann
Does management have any thoughts on the sale of Wirecard North America? Any early impressions of the buyer and whether or not that improves or doesn't improve your competitive position in the U.S. in terms of potential for gaining market share?

Mark Newcomer
I believe it does. I believe North Lane and Syncapay, I'm not sure, just how much of a healthcare approach they have to the market. I'm not sure plasma is in their wheelhouse. That said, the Wirecard division has continuously gone after that (INAUDIBLE). We will find ourselves competing harder and harder to pull down additional business opportunities in that space.

Mark Attinger
Yeah. The one thing I would add to Mark's comment is the conclusion of who the buyer is, and that transaction resulted in us securing those 25 centers and letting the industry as a whole digest what was happening with Wirecard before that could transpire. And so that was actually

helpful to clearing the air if you will, and letting that particular client provide us that opportunity on the first week of December.

Mark Newcomer
And that said, I'm not convinced that there is not other clients out there that are looking to make a transition and that's, therefore, why we continue to talk with folks out in the marketplace.

Graham Hickman
Got it, got it. And just to put a finer point within Pharma, the $6.3 million revenue reversal, would you still expect to recognize the majority of that $6.3 million as all of the existing settlement income campaigns are completed? Or did you find that had been an overestimate and the amount of revenue to be recognized still will be significantly lower than that $6.3 million?

Mark Newcomer
Yeah. We don't have visibility on that and that's why we had to constrain the revenues and revert the methodology. So I wouldn't want to speculate. We will certainly have settlement income.

Graham Hickman
Okay. Thank you.

Operator
Thank you. As a reminder, that's star, one, to be placed in the question queue. One moment please while we pull for further questions. We reach 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
Thanks, Kevin. Again, although our business continues to be adversely impacted by the effect of COVID-19 pandemic. We continue to make the investments in our company that will enable us to resume our long-term 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 tonight's teleconference and webinar, you may disconnect your line at this time and have a wonderful day. We thank you for your participation.