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Fourth-Quarter and Full-Year 2020

Earnings Call

March 25, 2021, 5:00 p.m. Eastern Time

Presenters:

- **Mark Newcomer** – *Paysign – Co-Founder and Chief Executive Officer*
- **Jeff Baker** – *Paysign – Chief Financial Officer*

Q&A Participants:

- **Peter Heckmann** – *D.A. Davidson – Analyst*
- **Austin Moldow** – *Canaccord Genuity – Analyst*
- **Mark Palmer** – *BTIG – Analyst*
- **Jon Hickman** – *Ladenburg Thalmann – Analyst*

Operator

Hello, and welcome to the Paysign fourth quarter and full-year 2020 earnings conference call. -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 proposals. 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 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 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 neither prepared in accordance with nor an alternative to financial measures prepared in accordance based on any standardized methodology prescribed by GAAP and is not necessarily comparable to similarly titled measures presented by other companies. It's now my pleasure to turn the call over to Mark Newcomer. Please go ahead.

Mark Newcomer – *Co-Founder and Chief Executive Officer*
Thank you, Kevin. Good afternoon, everyone, and thank you for joining Paysign's fourth quarter and full-year 2020 earnings call. I am Mark Newcomer, co-founder and chief executive officer. Also, on the call with me today is Jeff Baker, our new chief financial officer.

Our fourth-quarter revenue was $7.3 million, down $2.5 million from the same period last year. For the full-year 2020, our revenue was $24.1 million, down $10.5 million from 2019. These decreases were primarily due to the change in accounting estimate on the recognition of settlement income for the pharmaceutical business we made in the third quarter of this year and the impact of COVID-19 on our plasma business. We continue to closely monitor U.S. economic indicators as COVID-19 vaccination distribution continues and restrictions ease across the U.S. While the recession caused by the pandemic may have some lasting effects on consumer spending, we saw consumer spending on our programs begin to return to pre-pandemic levels. For the past two quarters, we have seen quarter-over-quarter increases in consumer spending, indicating a gradual return to pre-pandemic normalcy. In Q4 2020, we saw a 14.4% increase over Q3 2020.

In the fourth quarter, consumer spending on Paysign programs was down 12% versus Q4 2019, showing the continued impact of the pandemic on our business. However, for the full year, we were only down only 1.6% due primarily to the growth in our pharmaceutical business. According to insights published by principal economists at Visa, consumer spending was solid in the first quarter of 2021, despite the impact of multiple severe weather events. I believe these all to be signs of improving economic conditions and should continue to be positive for Paysign.

Despite the pandemic-related business impacts, we continue to add new clients, new plasma centers and new products throughout 2020. We added 36 new centers in the fourth quarter, exiting the year with a total of 340 centers. This compares to 285 centers at the end of 2019, an increase of 19.3%.

We continue to expand our patient affordability footprint during Q4. Our sales teams were hard at work expanding our relationships in the industry, bringing two additional hub service company partnerships. These partnerships are instrumental to our growth in this industry, as they will resell our solutions into larger direct-to-pharma audience. In addition, we launched three new pharmacy-based copay programs and were awarded two additional programs that will launch in 2021. We continue to receive a high level of interest in both our direct pharma and hub service solutions.

We will continue to build out additional products and operations during 2021 that will allow us to remain a preferred partner for some of the nation's largest pharmaceutical manufacturers and hub service providers. In 2020, we launched new products and features as we continue our efforts to expand into other product verticals. We continue to enhance Paysign Premier Digital Bank Account product and added additional features such as sub accounts and the ability for cardholders to lock their card for security purposes. We added one new client to this program in 2020 and have a good pipeline of new clients for 2021.

We also have additional features and functionalities in our product road map. We launched Paysign Pays, our merchant cashback rewards program and rolled it out across our Paysign Premier and plasma clients. This program is an additional incentive for cardholders to use their Paysign card by operating cashback from over 1,200 merchants with over 60,000 locations, such as Walmart, Kohl's, CVS, Macy's, Petco, Home Depot, and Gap, to name a few. Each month, cardholders can activate offers from participating retailers and use their enrolled Paysign card either in-store or online and earn, on average, 5% cashback, which is deposited directly back to their Paysign account.

As you may have seen, we recently announced changes to our executive leadership team. Matt Lanford has been named president and chief operating officer; and Jeff Baker has been appointed as chief financial officer.

I'm extremely pleased to have Matt assume the important role of president and COO. Since joining Paysign in 2019 as chief product officer, he's been integral in our product development and overall success. He brings with him more than 30 years of payments industry experience, senior leadership roles, and accolades. Matt has succeeded me as president, and I continue in my role as chief executive officer. He has also replaced Joan Herman as chief operating officer. Joan remains a member of the board of directors, and her new role is executive vice president of operations.

I'm equally pleased to have Jeff assume the role of CFO. Jeff joined Paysign in February of this year and brings with him in-depth knowledge of the payments industry and global mergers and acquisitions, along with extensive experience as a senior equity analyst for several major firms. With Jeff's successful track record leading high-performing payment organizations, I'm excited to have him in the role of chief financial officer. Jeff has succeeded Mark Attinger as CFO.

With these two C-level positions and the senior leadership roles we've built over the past year in sales, marketing, and IT, I believe we have assembled the very best team of experts to usher in the next phase of growth for Paysign. And I am extremely impressed with their performance.

At this time, I would like to turn it over to our CFO, Jeff Baker, who will discuss our fourth quarter and full-year results in detail.

Jeff Baker – *Chief Financial Officer*
Thank you, Mark. Good afternoon, everyone.

The revenue and operating performance in the fourth quarter continued to improve over the prior two quarters, primarily driven by our plasma business. Of the total revenues of $7.3 million mentioned by Mark, plasma revenue accounted for $6.3 million, pharma revenue was $921,000 and other revenue was $33,000.

Importantly, our gross margins continue to hold north of 50%, landing at 51.2% for the fourth quarter. Our adjusted EBITDA for the fourth quarter came in at $768,000 or $0.01 per share on a fully diluted basis. This is the highest dollar amount experienced since COVID started last year. These results compared unfavorably to the pre-COVID fourth-quarter 2019 results of total revenue of $9.8 million, gross margins of 51.8% and adjusted EBITDA of $2.6 million or $0.05 per fully diluted shares.

As previously mentioned by Mark, fourth quarter gross dollar load volume declined 2.2% versus the year ago period, but increased sequentially by 15.9%. Fourth quarter purchase volume declined 12% versus the year ago period, but also increased sequentially by 14.4%. Taking a closer look at the pharma business in the quarter, revenues of $6.3 million were up from $5.2 million reported in the third quarter and $4.6 million reported in the second quarter. As Mark pointed out, we exited 2020 with 340 centers, adding 36 in the fourth quarter.

Here are a few important items worth pointing out. First, while we are still below pre-COVID-19 quarterly plasma revenue levels, we are seeing gradual improvements. Second, our average revenue per center also continues to improve despite adding 36 new centers in the fourth quarter. I'd say despite because it takes time for new centers to ramp up after onboarding, so the higher denominator used in the calculation without full revenue benefit causes our average revenue per center calculation to be lower.

That being said, with COVID and these new centers being onboarded, our average revenue per center increased each quarter from the second quarter to the third quarter to the fourth quarter, with the fourth quarter being $19,885 per center. Third, if we can return to pre-COVID average revenues per center of approximately $25,000, coupled with the increased number of centers we added in the fourth quarter, then we can get to over $8.5 million in revenue per quarter just from our plasma business or $34 million to $35 million per year in total plasma revenues. However, let me caution listeners. Without COVID, our plasma business does experience seasonality with a dip in Q1 as tax rebates go out.

That, coupled with stimulus checks and unemployment benefits ongoing, we do not expect to return to pre-COVID averages until those factors are no longer with us. Turning your attention to the pharma business. Fourth-quarter 2020 revenues of $921,000 decreased $914,000 compared to the fourth-quarter 2019, primarily driven by a change in accounting estimate in the third quarter previously mentioned by Mark. As a reminder, that change in estimate impacted the recognition of settlement income during the fourth quarter compared to the same period in 2019.

We continue to make investments in the pharma business and believe that it is an attractive niche business that can have a meaningful impact to our overall business and help diversify our customer base. As Mark mentioned, we continue to make significant investments in our business from an SG&A and IT perspective to give us the support and technological capabilities needed to efficiently grow the business. Fourth-quarter 2020 operating expenses increased $762,000 to $4.4 million versus $3.6 million in the fourth quarter of 2019. $185,000 of that was due to an increase in stock-based compensation and $143,000 of that was increase – that increase was due to an increase in depreciation and amortization.

Excluding those changes, total operating expenses would have risen $435,000 or 12.1%. During the fourth quarter, we decided to take a $4 million tax provision for recording evaluation on our deferred tax assets. This was a noncash provision that will remain available for future benefit when the company returns to generating positive net income. Net income for the quarter decreased $6.2 million to a loss of $4.3 million.

Adjusted EBITDA, which we define as operating income plus depreciation, amortization, stock-based compensation, impairment of intangible asset and loss on the abandonment of assets and is a non-GAAP metric used by management to gain the operating performance of the business, came in at $768,000, a decrease of $1.8 million from the same period in 2019. Lastly, regarding the health of our company, we exited the year with $7.8 million in unrestricted cash and 0 debt. We believe that we remain well capitalized and positioned to weather any further impacts from COVID-19. With that, I'd like to turn the call over to the moderator for Q&A

Questions & Answers

Operator
Thank you. [Operator instructions] Our first question today is coming from Peter Heckmann from Davidson. Your line is now live.

Peter Heckmann – *D.A. Davidson – Analyst*
Good afternoon, gentlemen. Thanks for taking the questions. Can you talk a little bit about your current sales pipeline within plasma, if there's any other centers that are scheduled to convert or ones that you're working on? And then just a little bit about – there's a fairly significant ownership change to one of your competitors. Just talk about if you've seen any change in the competitive dynamics there.

Mark Newcomer – *Co-Founder and Chief Executive Officer*
Yes. I'll go ahead and address that, Pete. I would say that for our pipeline, we're pretty much looking at on par with last year or beating last year for 2021. I won't go into too much more detail than that at this point.

Regarding the competitive landscape, yes, there have been some changes. There have been additional people that are out looking and talking. So, all things considered, yes, I think there will be some ramifications.

Peter Heckmann – *D.A. Davidson – Analyst*
OK. OK. And then just in terms of how we're thinking now about the pharma revenue. Correct me if I'm wrong, but I guess the $900,000 in this quarter, did that include any campaigns that were ending that would have had a kind of a onetime true-up? Or how should we think about those onetime true-ups as we go over the next few quarters?

Jeff Baker – *Chief Financial Officer*
Yes, Pete. So, with the change in the accounting, it does make some lumpiness come in. It's – we did have a small program in that benefited a little bit. It wasn't huge.
I mean, right now, you see pharma still, from an overall contribution of the business, is quite low. There will be, as we go forward in 2021, we'll have another program and – but like I said, it will be a little lumpy, but it's not going to be massively material like millions of dollars or anything like that. So...

Peter Heckmann – *D.A. Davidson – Analyst*
Got it. I'll get back to the queue for now. Thanks.

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

Austin Moldow – *Canaccord Genuity – Analyst*
Thanks for taking my questions. On the five new pharma programs in 2020, can you refresh us a bit in terms of what kind of services, what kinds of programs they were for? And also just quickly, just want to clarify how many programs began and ended in Q4.

Mark Newcomer – *Co-Founder and Chief Executive Officer*
Yeah. In regards to the mix of products in the patient – it's really patient affordability space. So we have co-pay, we have combined bill, different products of those nature. I mean to get you – I'd have to get – probably go back to some notes to get out some of the information that you're looking for, and we can certainly bring you up to speed on that.

Austin Moldow – *Canaccord Genuity – Analyst*
OK. And – yes, sorry.

Jeff Baker – *Chief Financial Officer*
Well, I'm just going to say on the number of programs, we exited 340, Austin. I did not bring in that number where the quarter started. But we'll get back to you.

Austin Moldow – *Canaccord Genuity – Analyst*
In pharma, would you be able to give that program number for the quarter, programs that ended and that were launched in the quarter?

Jeff Baker – *Chief Financial Officer*
We only had one end. And then as far as new ones launched, do you know?

Mark Newcomer – *Co-Founder and Chief Executive Officer*
I know that two – they landed two big one to the hopper for 2021. And I believe there was an additional – and again, I'm not real comfortable with saying a number, I'm not 100% sure about it. So let me defer and we'll get back to you on that.

Austin Moldow – *Canaccord Genuity – Analyst*
OK. Again, on pharma, can you speak to the growth in just the pharma segment for loaded funds in the quarter?

Mark Newcomer – *Co-Founder and Chief Executive Officer*
Say it again, Austin, I'm sorry?

Austin Moldow – *Canaccord Genuity – Analyst*
As it pertains to just the pharma segment, would you be able to speak to the growth you saw in the quarter for pharma-loaded funds?

Jeff Baker – *Chief Financial Officer*
Yes. I mean, for the quarter, the gross dollar loads for pharma fell. Let me look at my chart here. I'll do some calculation, but about – was around $24 million was the total number of loads during the quarter.

Austin Moldow – *Canaccord Genuity – Analyst*
OK. Got it. And last question here on the other business line. Can you just kind of give a little color on what's contributing or which of those other business line programs are contributing to revenue? And what the expectation is for 2021 other revenue contribution?

Jeff Baker – *Chief Financial Officer*
We're not going to give any guidance on 2021 as it relates to revenue specifics. What I can tell you is the other programs was $33,000 this quarter, and that was down from – roughly $300,000 in the fourth quarter of 2019. So, I think it's been bouncing around the $33,000-ish range. It's certainly a focus on us and the new sales group, but it's going to take time to ramp that up in those expectations.

So, at this point in time, it's kind of irrelevant to give you any kind of guidance around that until we see better pipeline metrics and things of that nature.

Mark Newcomer – *Co-Founder and Chief Executive Officer*
One thing I can tell you, Austin, is I can kind of address some of the product types. For instance, I think we'll see some growth around our digital banking account, as with some of the new features and functionalities we're adding to that. And I also think we'll see additional growth in the rewards sector.

Austin Moldow – *Canaccord Genuity – Analyst*
OK. Great. Thanks very much.

Operator
Thank you. [Operator instructions] Our next question today is coming from Mark Palmer from BTIG. Your line is now live.

Mark Palmer – *BTIG – Analyst*
Yes. Thank you, and thanks for taking my question. A large company in the plasma space reported recently and believes that attitudinal changes among those who have donated plasma historically could continue to be a headwind as a result of the pandemic. What gives you confidence that we're going to see a rebound in plasma donation volumes, the willingness of those who would benefit from the additional cash to come forward and donate plasma and therefore use your cards?

Mark Newcomer – *Co-Founder and Chief Executive Officer*
Yeah. I think as we see some easing in the restrictions, I think you're going to see people return to normalcy and start arriving back at the donation centers. You got to understand, a lot of these people, they're not doing this for altruistic reasons. They're not doing this to be a good citizen and donate.

A lot of these people are doing this to supplement their income. And I believe that will continue to happen in the future as well.

Jeff Baker – *Chief Financial Officer*
And Mark, let me add this. I mean one thing that we are seeing even today is that the average dollar loaded per card continues to go up. And that's a factor of supply and demand. We know that there are more therapies that are using plasma.

So, plasma is not going away. The demand is there. And as that average revenue per load goes up, that's going to be a benefit to us as we make money on fees and interchange and things of that nature. So, I think, just like anything else, on an absolute number of plasma donations, if those weaken then the plasma centers will be forced to raise the price so that they can drive more people into their centers.

But we got to get beyond, clearly, what we're seeing coming out of Washington, whether it's stimulus checks or ongoing unemployment benefits, to incentivize people to stop sitting at home and get out and actually work and pay their bills like they did prior to COVID. And it's not just our business that we're seeing this. I fly a lot as I'm commuting back and forth to Las Vegas. And I can't even get a car to pick me up because there are no drivers, because they're not incentivized to go out and drive. So – but this will all normalize, as we all know, and hopefully, we'll benefit from it at that time.

Operator
Thank you. [Operator instructions] Our next question is coming from Jon Hickman from Ladenburg Thalmann. Your line is now live.

Jon Hickman – *Ladenburg Thalmann – Analyst*
Sorry. Can you hear me OK?

Mark Newcomer – *Co-Founder and Chief Executive Officer*
Jon, yes. We can hear you.

Jon Hickman – *Ladenburg Thalmann – Analyst*
Sure. I have a couple of questions. First of all, in the operating expense line this quarter, were there any – was there onetime expenses for the accounting to get you guys fully compliant, get rid of that, what do you call it, material weaknesses that you're finished with now?

Jeff Baker – *Chief Financial Officer*
There were not any onetime – the material weaknesses we worked on all throughout 2020 and exited the year in compliance. But from an SG&A perspective, there weren't any onetime items in this quarter. You would have seen part of that starting back earlier in the year when we brought in the outside firm, and they did their work. So – but no onetime expenses this quarter.

Jon Hickman – *Ladenburg Thalmann – Analyst*
OK. And then I know you can't report it because you've changed your accounting on your pharma programs. But are you seeing any change in like consumer behavior there and how the cards are being used or how much people are leaving on the cards, etc.? Has the historical norms changed on you?

Jeff Baker – *Chief Financial Officer*
No, not at all. It's the same. We're seeing the same patterns that cause us to change the estimate in the third quarter, even today.

Jon Hickman – *Ladenburg Thalmann – Analyst*
OK. And then – so just to clarify one comment I think you made in the question-and-answer period. So, you said that your pipeline for new plasma centers is roughly equal to what we signed last year, like 30 to 40 centers you expect to add this year? Is that what you were trying to communicate?

Mark Newcomer – *Co-Founder and Chief Executive Officer*
Yes. I believe we'll beat that.

Jon Hickman – *Ladenburg Thalmann – Analyst*
OK. OK. That's it for me. Thanks.

Operator
Thank you. Our next question is a follow-up from Peter Heckmann from Davidson. Your line is now live.

Peter Heckmann – *D.A. Davidson – Analyst*
Just following up, given we've only got about one week left in the first quarter, can you give us some qualitative comments there, maybe your relative level of comfort with the first quarter consensus numbers?

Mark Newcomer – *Co-Founder and Chief Executive Officer*
I think – again, we're not giving guidance out. I gave in my prepared comments, just some of the things that you guys need to be aware of, which is, seasonally, fourth quarter – or excuse me, first quarter is usually lower due to tax season, people getting their rebates. And then, of course, then you had the big stimulus hit mid-March. Stimulus checks went out, etc.

So, Pete, if I could give you guidance, and I had a crystal ball, I would do it, but it's hard to see how those factors are going to influence the first quarter. And remember, first quarter last year was a very strong quarter. So, the COVID didn't really go into full effect. Our low watermark was in May.

So, you just be cognizant of that as you're looking at your models.

Peter Heckmann – *D.A. Davidson – Analyst*
OK. Thank you.

Operator
Thank you. We 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 – *Co-Founder and Chief Executive Officer*
Thanks, Kevin. Again, I want to end with an emphasis on the amazing teams we have assembled along with the robust pipeline we are building in support of 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.

Operator
[Operator signoff]

Duration: 30 minutes