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First-Quarter 2021
Earnings Call

May 11, 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:
- **Jon Hickman** – *Ladenburg Thalmann – Analyst*
- **Michael Diana** – *Maxim Group – Analyst*

Operator
Hello, and welcome to the Paysign first-quarter 2021 conference call and webcast. At this time, all participants are in a listen-only mode. If anyone should require operator assistance, please press star zero 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 statements. 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 CEO, Mark Newcomer. Please go ahead, sir.

Mark Newcomer – *Co-Founder and Chief Executive Officer*
Thank you, Kevin. Good afternoon, everyone, and thank you for joining us for Paysign's first-quarter 2021 earnings call. I am Mark Newcomer, chief executive officer, and joining me this afternoon is Jeff

Baker, our chief financial officer. The first quarter is typically a seasonally weaker quarter for our business due to the timing of tax refunds and the impact they have on plasma donations. This weakness was intensified this quarter due to the added effects of the pandemic-related stimulus payments and unemployment benefit extensions. Our first quarter plasma funds loaded was down 2.5% from the year-ago period and down 6.8% from the previous quarter. We believe that plasma donations will return to normal levels as these stimulus packages expire and consumers return to the plasma centers.

In the quarter, we onboarded three new plasma centers, bringing our total number of centers to 343. Additionally, we signed four new plasma clients. They are all new entrants in the plasma collection space, and each have aggressive growth plans, with initial centers expected to go live in the second quarter. Our plasma pipeline remains strong and we remain optimistic in the future of the segment's growth, as we are seeing an increase in new center builds from our existing plasma clients. We expect to add a total of 60 new plasma centers this year, exiting 2021 with at least 400 centers.

Our patient affordability offerings continue to grow. We are seeing very positive feedback from the market related to our product offerings and partnership strategy, and that is reflected in our sales pipeline. During the first quarter, we developed and launched a new voucher program for an existing client. This program addition reflects upon the ability of our sales, client services, and operational teams to build trust and confidence in our offerings, allowing us to capture additional revenue from existing clients. We officially launched two additional programs in the first quarter, a pharmacy claims-based program and a hybrid pharmacy and medical claims-based program. We believe that hybrid and medical claims-based programs represent an underserved portion of the patient affordability market.

Our product development continues to focus on the unique products, services, and relationships we can build to accommodate the needs of this growing vertical. Overall, we are pleased with the continued growth of the patient affordability vertical and are excited about the continued pipeline growth. We have the utmost confidence in our sales, client services, and operational teams to retain and grow our existing patient affordability portfolio of clients by continuing to provide industry-leading insights and an outstanding client and patient experience.

We're beginning to see traction with our digital bank account product Paysign Premier. We signed three new clients this quarter and have additional deals in the pipeline. We continue to execute on our product strategy to enhance the product features by adding account-to-account transfers. Additionally, we signed two new deals for our business expense product to be used for T&E, per diem, vendor payments, and small expense purchases. While it is still early days for these products and it will take some time for them to ramp up, we are excited about the interest in them and the opportunity it brings us to expand into other verticals. With that, I'll pass it over to Jeff to give you a breakdown of our numbers.

Jeff Baker – *Chief Financial Officer*
Good afternoon. The revenue and operating performance in the first quarter were in line with our expectations given the seasonal weak period driven by tax rebates coupled with the impact of government stimulus measures related to COVID-19. Of our total revenues of $6.3 million, plasma revenue accounted for $5.4 million, or 86%, pharma revenue was $883,000, and other revenue was

$13,000. Our gross margin for the quarter was 45.1%, reflecting a decrease in pharma revenues. We continue to hold SG&A expenses flat as an absolute dollar amount, despite severance-related expenses and legal fees relating to our class-action defense that negatively impacted the quarter by $450,000. Including these expenses, our adjusted EBITDA for the first quarter came in at a loss of $397,000, or a loss of $0.01 per fully diluted share. Adjusted EBITDA, which we defined as operating income plus depreciation, amortization, and stock-based compensation and is a non-GAAP metric used by management to gauge the operating performance of the business. These results compared unfavorably to pre-COVID first-quarter 2020 results of total revenues of $10.6 million, gross margins of 54.1%, and adjusted EBITDA of $2.6 million, or $0.05 per fully diluted share.

First-quarter gross dollar volume declined 15.2% versus the year-ago period but increased sequentially by 2.2%. First-quarter purchase volume declined 13.1% versus the year-ago period and was unchanged versus the previous quarter. We did experience a sequential decline in our revenue-conversion rate as we experienced a decrease in the number of cardholder purchase transactions, which negatively impacted our cardholder fees for the quarter. We believe this is a seasonal trend, as we experienced the same behavior during the same period last year. Taking a closer look at the plasma business for the quarter, revenues of $5.4 million were down $2.2 million from the same period last year. The average revenue per plasma center was $5,260 versus $8,589 last year. We exited the quarter with 343 centers versus 285 at the end of Q1 last year.

Turning your attention to the pharma business, first-quarter 2021 revenues of $768,000 decreased $2.1 million compared to first quarter 2020, primarily driven by the change in accounting estimate last year and the termination of one program in December. We continue to win new mandates in the pharma business and expect new programs to launch in the third and fourth quarters of this year, giving us good momentum into 2022. Cost of revenues for the period decreased $1.4 million compared to the same period in the prior year, primarily due to the decline in plasma transactions as many of the plasma transaction costs are variable in nature. Gross profit for the quarter decreased $2.9 million compared to the same period last year resulting from the reduction in plasma and pharma revenue and the associated cost of sales as mentioned. We continue to make significant investments in our business to give us the support and technological capabilities needed to efficiently grow the business and launch new prepaid programs. Thus, depreciation and amortization increased 18.6% year-over-year to $596,000. Regarding the health of our company, we exited the quarter with $6.6 million in unrestricted cash and zero debt, which is $1.2 million below our December ending balance. Based on our forecast, we believe we remain well capitalized and positioned to weather any further impacts from COVID-19.

Lastly, I wanted to direct your attention to the press release where we have laid out our thoughts for 2021. For the full year, we expect total revenue to be in the range of $29 million to $32 million, reflecting growth of 20% to 32%, and adjusted EBITDA of $350,000 to $1.9 million. Gross profit margins are expected to be 45%, or increase 640 basis points over 2020. Operating expenses are expected to increase modestly to $18 million to $18.5 million, or 2% to 4.9%. This outlook presumes that the second-quarter results are slightly better than the first-quarter results and that we began to see a recovery in the business in the third quarter when unemployment subsidies are scheduled to end in early September. With a non-COVID-19 impacted fourth quarter, we estimate our plasma revenue could reach $27.5 million for the full year 2021, and increase by an additional $10 million in 2022. With that, I would like to turn the call over to the moderator for Q&A.

Questions & Answers

Operator
Thank you. We'll 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. Once again, that's star one to be placed in the question queue. If you're on a speaker phone, it may be necessary to pick up your handset before pressing the star key. Once again, that is star one to be placed in the question queue. One moment, please, while we poll for questions. Our first question today is coming from Jon Hickman from Ladenburg Thalmann. Your line is now live.

Jon Hickman
Hey. Thanks for taking my call. Can you hear me?

Mark Newcomer
We can.

Jeff Baker
We hear you, Jon.

Jon Hickman
Okay. I was wondering if – are you noticing any difference in different areas of the country based on COVID? Like, are some areas, mainly the Southeast or something doing – is the plasma business doing better than say in California, et cetera? Can you comment on that?

Mark Newcomer
Well, this is Mark. I would say, Jon, that I can't – I haven't really seen anything that stood out to me that would show me there's a big difference on a regional basis. It seems to be kind of impacted across the boards.

Jon Hickman
Okay. And then – so, your main competitor, now they're owned by a different outfit. Is there anything you're seeing competitive-wise that's difference than six months ago?

Mark Newcomer
We're seeing additional opportunities for us to get our foot in the doors at additional companies. And outside of that, there's not too much I can say about it. But we're also seeing new entrants in the space, more so than we've seen in the past, and we're successfully engaging with those new entrants.

Jon Hickman
Okay. That's it for me. Thanks.

Operator
Thank you. As a reminder, that's star one to be placed in the question queue. One moment, please, while we poll for further questions. Once again, that's star one to be placed in the question queue. If you're on a speaker phone, it may be necessary to pick up your handset before pressing star one. Our next question is coming from Michael Diana from Maxim Group. Your line is now live.

Michael Diana
Okay. Thank you. Jeff, I just want to be clear. On your plasma revenue guidance for 2022, are you saying ‘21 could be 27.5 and then ‘22 could be 37.5?

Jeff Baker
Yeah, Michael, that's exactly right. So, if you look at what's happened, you'll see first quarter this year, second quarter, and into most of the third quarter, we think’s going to be impacts from COVID. When we come into the fourth quarter, the fourth quarter number you get should be a non-COVID impacted quarter. So, obviously, you'll build that in to say at least one normal quarter like we had prior to COVID. And then you layer that in, so you'll have easier comps in the first quarter, second quarter, and third quarter of 2022. And then, fourth quarter you get your industry growth say for all the – any of the centers, additional centers we add during the period.

Michael Diana
Right. Okay, great. And your expenses for severance and the lawsuit you had in this quarter, did the lawsuit expenses continue?

Jeff Baker
So, that depends. We've disclosed the lawsuits in our filings that are out there, and we'll have to just play – see how that plays out. That’s about all I can say about it, because it's an ongoing issue but, yeah.

Michael Diana
Okay. Great. Thank you.

Jeff Baker
Alright, Michael.

Operator
Thank you. As a reminder, that’s star one to be placed in the question queue. One moment, please, while we poll for further questions. We reached the end of our question-and-answer session. I'd like to turn the floor back over to Mark for any further or closing comments.

Mark Newcomer
Thank you very much, Kevin. I'd like to reiterate that we are very pleased with our growing sales pipeline and the strides we've made in our patient affordability offerings. I would like to thank the Paysign team for their dedication and all their hard work. Thank you for your continued interest, your questions, and your participation in this earnings call. Stay safe. Have a nice evening. And we look forward to next quarter's call.

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

Duration: 16:14