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Third-Quarter 2022
Earnings Call

November 08, 2022, 5:00 p.m. Eastern Time

Presenters:
- **Mark Newcomer** – *Paysign – Co-Founder, Chairman and Chief Executive Officer*
- **Jeff Baker** – *Paysign – Chief Financial Officer*

Q&A Participants:
- **Gary Prestopino** – *Barrington Research*

Operator
Hello and welcome to the Paysign Third Quarter 2022 Earnings Conference Call. As a reminder, this conference call is being recorded.

This call may include statements that may be deemed to be forward-looking under federal securities laws, and the company intends that such forward-looking statements be subject to the Safe Harbor created thereby. All statements besides statements of fact included on this call are forward-looking. Such forward-looking statements include, among others, that our unrestricted cash, anticipated revenues and operating profits will be sufficient to sustain operations for the next 12 months, that the expected total revenue, gross profit margin, operating expenses, depreciation and amortization, stock-based compensation, adjusted EBITDA, plasma revenues, and pharma revenues for 2022 meet our expectations, that the company will continue to post year-over-year improvements, that the company's growth prospects in plasma, pharma and other prepaid business materialize, and that the company will continue to be affected by COVID-19.

We caution that these statements are qualified by important risks, uncertainties and other factors that could cause actual results to differ materially from those reflected by such forward-looking statements. Such factors include, among others, the inability to continue our current growth rate in future periods, that a downturn in the economy, including as a result of COVID-19 and variants as well as further government stimulus measures could reduce our customer base and demand for our products and services, which could have an adverse effect on our business, financial condition, profitability and cash flows, operating in a highly regulated environment, failure by us or business partners to comply with applicable law and regulations, changes in the laws, regulations, credit card association rules or other industry standards affecting our business, that a data security breach could expose us to a liability and protracted in costly litigation and other risk factors set forth in our Form 10-K for the year ended December 31, 2021. Except to the extent required by federal securities laws, the company undertakes no obligation to publicly update or revise any statements made today, whether as a result of new information, future events or otherwise.

This conference call also includes comments about 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 is now my pleasure to turn the call over to Mr. Mark Newcomer, CEO. Please go ahead, sir.

Mark Newcomer – *Co-Founder and Chief Executive Officer*
Thank you, Kevin. Good afternoon, and thank you for joining today's call to review Paysign's outstanding third quarter 2022 results.

I'm Mark Newcomer, Chief Executive Officer, and with me this afternoon is Jeff Baker, our Chief Financial Officer. Earlier today, we announced our financial results. Third quarter revenue was $10.6 million, an increase of $2.8 million, a 36% improvement from Q3 2021 and an increase of $2 million from the previous quarter, which translates to a 23% improvement. Additionally, we reported net income of $852,000, or $0.02 per fully diluted share.

Our third quarter results reflect the hard work and dedication of the entire Paysign team as we achieve our goal to return to profitability. During the quarter, we onboarded an additional 13 plasma centers, exiting the quarter with a total of 450 centers utilizing our services. We benefited from both the organic growth of our existing centers and the increase in revenue generated from centers added at the tail end of the second quarter.

We also began to see the effects of the U.S. District Court's preliminary injunction on September 16 allowing Mexican nationals with a valid B1, B2 visa to resume donating plasma in the U.S., as the affected centers began to ramp up donation shortly after this decision. Source plasma collection companies continue to execute their aggressive growth strategies, and we continue to have confidence in our growth prospects for this segment.

Looking at the remainder of the year, we expect to onboard an additional three to four centers each month for a total of 90 to 95 new centers in 2022. Throughout the quarter, we continued to see our load and spin trends improve as the number of plasma donations increased. Funds loaded on card was up 57.6% over third quarter last year and up 23.1% over last quarter. The third quarter spend volume increased 58.6% from last year and was up 22.9% over last quarter.

Turning to our patient affordability business, Q3 saw two additional program launches for this vertical. We continue to see daily claims volume increase as we add more retail and specialty pharmaceutical products to our list of active programs. In addition to onboarding new programs, we have completed integrations with additional hubs service providers. Hubs service providers are critical partners in our success, and we are thrilled to have gained the trust of these providers.

We are confident that we will continue to build on that trust and form lasting partnerships that encourage continued growth. Our patient affordability teams have been busy fielding inquiries and conducting data analysis for potential clients based on the webinar we hosted in Q2 related to spread pricing in the industry. If you haven't seen the webinar, I would encourage you to visit our website for the link to the webinar and a white paper we published on this topic.

Our transparent pricing strategies are having a positive impact on potential new business, I think forcing the industry to rethink how these pricing strategies are impacting the U.S. healthcare ecosystem. The Q4 pipeline for patient affordability looks robust with several program launches in process and several additional planned for Q4.

Looking ahead to 2023 and beyond, we believe we are poised to see continued growth in this vertical with the ability to position Paysign as one of the leading providers of patient affordability solutions. We are always looking for new ways to support our existing clients as well as to expand our business into other payment verticals.

In the third quarter, we signed two new prepaid disbursement programs. The first program is for an employer per diem card for one of our existing plasma clients, and the second is an additional corporate payout program. Additionally, we were awarded the business in an RFP sponsored by a nationwide membership organization to provide general purpose reloadable and gift cards to over 440 of their brick-and-mortar locations. We expect to launch these programs during the fourth quarter.

Overall, we are very pleased with the third quarter results, and we believe we have the building blocks in place to ensure the long-term growth of Paysign and the enhancement of our shareholder value.

With that, I'll pass it over to Jeff to give you more insight into our financials for the quarter.

Jeff Baker – *Chief Financial Officer*
Thank you, Mark. Good afternoon, everyone. As Mark pointed out, we are pleased with our third quarter operating results and the foundation we have built for 2022 and into 2023. Revenue, income from operations, EBITDA, adjusted EBITDA and transactional trends all improved sequentially and year-over-year. This was the best quarter in the company's history for our plasma business as we continue to grow our market share and benefit from individuals' needs to supplement their incomes.

With all of the details we provided in the press release and that will be available in our 10 Q tomorrow, I will simply hit the financial highlights for the third quarter 2022 relative to the third quarter in 2021. Total revenue of $10.6 million increased $2.8 million or 36% versus the year ago period. Of that amount, plasma revenue was $9.8 million, an increase of 40%, pharma revenue was $693,000, an increase of 5%, and other revenue was $73,000, an increase of 3%. The average revenue per month, per plasma center was $7,384 versus $6,542 last year. This marks our highest revenue per month per plasma center since COVID began in the first quarter of 2020.

We added 13 centers during the quarter, ending with 450 centers versus 359 centers at the end of Q3 2021. Gross profit margin for the quarter was 54.3% versus 51.1%, an increase of 320 basis points. SG&A increased 21.2% to $4.4 million, and total operating expenses were up 20.7% to $5.1 million.

As Mark mentioned, we posted net income of $852,000 or $0.02 per diluted share, versus a net loss of $271,000, or $0.01 per diluted share. Adjusted EBITDA, which adds back stock compensation to EBITDA, was $1.9 million or $0.04 per diluted share and marks the sixth consecutive quarter of positive adjusted EBITDA. It is also more than double the adjusted EBITDA we posted during the same period last year.

Regarding the health of our company, we exited the quarter with $8 million in unrestricted cash and zero debt, which is an increase of $595,000 from our fourth quarter ending cash balance. Our adjusted current ratio, which excludes restricted cash and card funding liability, was 2.21 versus 2.14 at the end of the fourth quarter.

Now turning your attention to our updated guidance for 2022, we now expect total revenue to grow 29% to 30% over 2021 to a range of $38.15 million to $38.35 million. Plasma is estimated to make up over 90% of total revenue for 2022. These expectations account for one of our plasma customers consolidating and closing 13 of their centers and to pharma prepaid programs ending in mid-November.

We expect to end the year with over 445 plasma centers and over 20 active pharma prepaid programs. Full year gross profit margins are expected to be approximately 56% with operating expenses expected to be between $21 million and $21.25 million as we continue to invest in people and technology and experience higher cost in insurance, travel and entertainment and other inflationary pressures.

Within total operating expenses, depreciation and amortization is expected to be approximately $2.91 million while stock-based compensation is expected to be approximately $2.28 million. Adjusted EBITDA is expected to be $5.5 million to $5.6 million. We expect our tax provision to be approximately $107,000 for 2022.

Lastly, we plan on providing guidance for 2023 during our Q4 earnings call in March.

With that, I would like to turn the call back over to the moderator for questions and answers.

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. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. One moment please while we poll for questions.

Our first question today is coming from Gary Prestopino from Barrington Research. Your line is now live.

Gary Prestopino – *Barrington Research*
Good afternoon, all. A couple of questions here - first of all, in terms of some of these new programs with the payroll processing customer, and then an RFP for general purpose reloadable gift cards nationwide, can you give us some idea of the magnitude of cards that you will be issuing combined for each of these companies or some kind of idea of what kind of processing volume you're looking to get out of that on a combined basis?

Mark Newcomer
Yeah, hey, Gary, it's Mark. It's kind of early days as we're just getting ready to implement those. So, we're not really comfortable at this point in time talking about volumes or numbers associated. But, I mean, you can kind of guess that, with 440 retail locations, we're expecting to do a decent volume of gift card and general spend reloadable once it's been implemented. But we'll talk further about it next quarter.

Gary Prestopino
Is the payroll plus processing client a large national organization, or is it more of--

Mark Newcomer
No, it's a smaller organization. And at this time, they're ramping nicely. And hopefully, we'll be able to discuss that in a lot more detail come Q4, as well.

Gary Prestopino
Okay. And then in terms of the business on the southern border, obviously, that district court decision was at the end of Q3. How has the ramp been in October and early November in terms of getting the Mexican nationals back into the sites to donate plasma.

Mark Newcomer
It's been ramping nicely ever since they announced it. We immediately saw an increase in donations and a considerable increase -- Jeff, do you have roughly the percentage increase from where we were at? I mean, to give you an idea, Gary, we were at probably 40 donations at some of those centers, which are now a day, that are now doing some over 1,200 per day.

Gary Prestopino
Wow, 1,200 per day.

Mark Newcomer
And continuing to ramp at this point. So, we're pretty positive about what's going on over there.

Jeff Baker
Yeah, I would also say, based on the data that we're seeing, the loaded amounts on those donations are slightly lower than what we're seeing across the whole organization. So, while the load numbers are up, the dollars being loaded are a little less. But all in all, it should be a nice addition to the financials going forward. As you know, given the late implementation in September, there's really not a lot of impact in the September quarter from that.

Gary Prestopino
Okay. And then can you comment - in Q2, you had an RFP, you won an RFP with a new client that is expected to begin onboarding in early 2023. I believe, at the time, you didn't have any insight onto how many sites you could potentially get. Has that cleared up and something you can talk about?

Mark Newcomer
Not really at this time. I mean, we have a -- we're leaning more towards a lower number to start out, probably in the range of somewhere between -- probably in the range of 20 centers. And I think that

will be a starting point. And then, like most of the clients that we have, I think you'll see some solid growth from there.

Gary Prestopino
Okay. I'll let somebody else ask a question.

Mark Newcomer
Thank you.

Operator
Thank you. As a reminder, press star, one, to be placed into the question queue. One moment please while we poll for further questions. Once again, press star, one, to be placed into the question queue.

We do have a follow up from Gary Prestopino for Barrington Research. Your line is now live.

Gary Prestopino
Okay. Can you comment on -- I think you said your gross profit margin is going to be about 56% in Q4. Is that correct, or is that for the year?

Jeff Baker
Gary, that's for the year. And we were -- initially, we were 56% to 57%. What you're seeing there's just nothing more than mix. So, when we're outperforming on the plasma business like we have been in the third quarter and where it looks like we're going to see coming into fourth quarter relative to the pharma prepaid programs that are fallen off and the growth in the copay, it's literally just mix. So, it looks like now we're going to come around at 56% for the full year.

Gary Prestopino
And going into 2023, can you hold that at around that level, or can we actually expect it to go up as the revenues ramp again?

Jeff Baker
Actually, what's going to happen is it'll probably go down. Again, it's mix driven. So that's plasma doing what it's been doing. And then pharma copay, which has still good margins, but not at the same level as the pharma prepaid business. And in 2023, we won't have any pharma prepaid business any longer. Like I said, that's all ending this month. So, it is mix. I expect my plasma margins to remain pretty steady, though.

Gary Prestopino
Okay. And then the entity that's closing and consolidating 13 centers, what's going on there that you could share with us?

Mark Newcomer
Sure. It's really a combination of things, but there's been a whole lot of acquisitions in the space. And so, basically, they found that they had a bunch of centers that were -- they had multiple centers in a given city and just found that it would be better for them not to. So, it was a decision made by the

organization. I don't see additional center closures from them at this time. It was just something they went through their process and determined.

Gary Prestopino
So those centers that they're closing, are you still servicing any centers or the centers that they're keeping in those cities?

Mark Newcomer
Yes.

Gary Prestopino
Okay. So, the business has got to go somewhere, and that's why they're consolidating. Just it's more of a facilities thing. It's not an issue of the actual business is not good for them.

Mark Newcomer
No, no, no, nothing to do with that. It's just consolidation.

Gary Prestopino
Okay. All right. Thank you very much.

Mark Newcomer
You're very welcome.

Operator
Thank you. We've 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, Kevin, and thank you, everyone, for taking the time to listen in on the call. We're very pleased with the results for the third quarter, and we're really very excited about the potential growth and our pipeline as we finish out this year and enter 2023. We appreciate all the support. Thanks, everyone, and have a good one.

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

Duration: 20:13