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Fourth Quarter and Full-Year 2022

Earnings Call

March 21, 2023, 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:

- **Gary Prestopino**– *Barrington Research*
- **Peter Heckmann** – *DA Davidson*
- **Jon Hickman** – *Ladenburg Thalmann*

Operator

Hello and welcome to the Paysign Fourth Quarter and Year-end 2022 Earnings Conference Call and Webcast. As a reminder, this conference call is being recorded.

This call may include comments that may be deemed to be forward-looking statements under federal securities laws, and the company intends that such forward-looking statements be subject to the Safe Harbor created thereby. All statements beside statements of fact included on this call are forward-looking. Such forward-looking statements include, among others, that we are pleased with the opportunities that lie ahead for us in 2023, our belief that 2023 is looking to be an exciting year across all of our product lines, and our belief that we are all well prepared to capitalize on new opportunities, our plans to continue to add new plasma centers, and our belief that the increasing demand for plasma by the medical industry will facilitate the increase in donations and fuel the continued growth of our plasma businesses, our belief that we are beginning to see real traction in our pharma copay business where we have built an industry reputation of providing reliable patient affordability programs to pharmaceutical companies, our expectation for total revenues, plasma revenues, new centers, pharma revenues, gross profit margins, operating expenses, expected legal expenses for our outstanding litigation, depreciation and amortization, stock-based compensation, interest income, net income, net income per diluted share, adjusted EBITDA and adjusted EBITDA per diluted share for full year 2023, our expectations for total revenue, gross profit margins, operating expenses and adjusted EBITDA for the first quarter of 2023, our belief that inflationary pressures for food, gasoline, rent and other products and services appear to be driving individuals back into plasma donation centers, and our inability to estimate whether reasonable accuracy -- with reasonable accuracy COVID-19's further impact on our results of operations, cash flows or financial condition.

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 ability to continue our current growth rate in future periods that a downturn in the economy, including results 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 laws 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 liability and protracted and costly litigation and other risk factors set forth in our Form 10-K for the year ended December 31, 2022. Except to the extent required by federal securities laws, the company undertakes no obligation to publicly update or revise any statements from this conference call 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's 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. Good afternoon, everyone, and thank you for joining our call today to review Paysign's fourth quarter and full year 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. Our fourth quarter revenue was $10.6 million, an increase of $1.9 million or 21% improvement over Q4 2021. For the full year, our revenues increased 29% to $38 million. Additionally, we reported a net income of $713,000 or $0.01 per fully diluted share for the fourth quarter and $1 million or $0.02 per fully diluted share for the full year.

2022 proved to be a year of significant growth in our plasma business as the headwinds from COVID-19 and the associated financial stimulus eased and are now comfortably behind us. We added 91 plasma centers to our platform, of which 45 were established centers, and the remaining were new construction. Of course, there were center closures and consolidation, and we ended the year with a net gain of 78 centers for a total of 444 centers at the end of 2022. Additionally, we benefited from same-center growth as well as from the U.S. District Court's preliminary injunction allowing for the resumption of cross-border plasma donations from Mexican nationals in late September.

We are expecting continued strong growth in plasma from both existing centers and new openings in 2023. Most of our clients continue to have aggressive growth plans, and we are currently forecasting 45 to 55 new center openings in 2023.

Turning towards patient affordability, we think that 2022 represented a true return to normalcy as our sales cycles time decreased dramatically and is now averaging around 90 to 120 days. This is quite the change from 2020 and 2021 where the sales cycle was somewhere between seven to nine months. We have worked diligently with our existing hub providers to shorten the sales cycle by providing upfront support early in their bid process, resulting in key wins for them and new program launches for us.

The return to in-person meetings and conferences has allowed us to engage with a larger number of clients than during the pandemic years. Our marketing team worked throughout the year to create content that engaged a range of potential clients and expose both industry weaknesses and less than ideal business practices.

Our dedication to open, honest and transparent pricing generated a firestorm of industry activity and positive feedback for our team. Our business development team was incredibly successful at securing new business and expanding partnerships across the industry.

The cornerstone of our efforts in 2022 was our tenants and sponsorship at the Asembia Summit held here in Las Vegas in May, which we have spoken about previously. Our teams were able to quickly pivot after that conference and close some critical wins for us in 2022 and to secure our participation in large scale RFPs in the latter part of the year and into 2023.

I am happy to report that we exited 2022 with commitments to launch programs from three of the top 20 pharmaceutical companies. So far, we have launched seven additional programs in 2023 and an additional 19 program commitments spanning the next six months. 2023 is looking to be an exciting year across all of our product lines, and we believe we are well prepared to capitalize on new opportunities.

We closed 2022 with 19 active patient affordability programs, more than doubling the number of active programs in the year. In addition to overall program numbers, claims processing associated with patient affordability programs also saw an increase. For the year, we saw more than 100% growth in month-to-month claim volume. We have been incredibly effective at disrupting this industry and bringing major players to the table. I am confident that the team we have put in place is going to take this vertical to the next level in 2023.

Speaking of our patient affordability team, I think now is a good time to announce the appointment of Brian Denison as Senior Vice President of Sales and Products for Patient Affordability. Brian joined our team in February and has an outstanding background, having spent time at TrialCard, Vidacare Pharmacy Services and GoodRx. Brian's business development efforts led TrialCard to record growth numbers and helped catapult Vidacare into position for acquisition by GoodRx. We are excited to have Brian leading our sales and product teams in patient affordability and think he is going to do amazing job helping to bring new clients and partnerships to the table.

Overall, we couldn't be more pleased with the progress we have made in patient affordability. I continue to believe that they will drive value for our shareholders by adding more diversified sources of top line revenue for Paysign.

Last quarter, I mentioned that we were awarded the business and an RFP sponsored by a nationwide membership organization to provide general purpose reloadable and gift cards to over 440 of the brick-and-mortar locations. That organization was the American Automobile Association or AAA. We launched their retail gift card programs during the fourth quarter, and we'll be launching their general purpose reloadable products in the coming months.

In summary, we delivered another strong quarter of growth, and we are pleased with our fourth quarter and full year results. In plasma, we saw significant growth in new centers and expect that growth to continue into 2023.

We are gaining traction in patient affordability, winning substantial new business in the quarter and doubling the number of active programs. We continue to diversify our product portfolio into new verticals such as payroll, retail gift and GPR. We will continue to invest in our people and systems, and I believe we are well positioned for the opportunities that lie ahead of us.

Jeff, over to you for more insight into our financials for the quarter and year-end.

Jeff Baker – *Chief Financial Officer*
Thank you, Mark. Good afternoon, everyone. As Mark pointed out, we are pleased with our full year and fourth quarter 2022 operating results and the traction we are seeing across our two major business lines of plasma and pharma.

Revenues, income from operations, EBITDA, adjusted EBITDA and transactional trends all showed meaningful improvement for the fourth quarter and full year versus the prior periods. With all of the details we provided in the press release and that will be available in our 10-K filed tomorrow, I will simply hit the financial highlights for the fourth quarter and full year of 2022.

Full year 2022 total revenues of $38 million increased $8.6 million or 29%. Of that amount, plasma revenues increased 34% to $8.8 million, pharma revenues declined 10.6% to $3 million, and other revenue increased 56% to $289,000. Fourth quarter total revenues of $10.6 million increased $1.9 million or 21%. Of that amount, plasma revenues increased $2.2 million to $9.7 million, pharma revenues decreased $443,000, and other revenues increased $142,000. The average revenue per month per plasma center for 2022 was 6,994 versus 6,058 in 2021, an increase of 15%. For the fourth quarter, the average revenue per plasma center increased 7% to $7,293 versus $6,798 during the same period last year.

As we had previously communicated, one of our clients closed 13 centers in the fourth quarter. With the addition of seven new centers during the quarter, we exited 2022 with 444 centers, an increase of 84 net new centers during the year.

Gross profit margin for 2022 was 55.1% versus 49.9% in 2021, an increase of 520 basis points. For the fourth quarter 2022, the gross profit margin was 51.9% versus 54.3% in 2021, a decline of 240 basis points. The fourth quarter year-over-year decline was almost entirely attributable to the mix shift in our pharma business as we transitioned from the legacy prepaid business to the new copay business. This margin decline was offset by a year-over-year expansion of 250 basis points of margin in our plasma business during the quarter.

SG&A for the year increased 22% to $15.4 million, with total operating expenses increasing 18% to $20.6 million. Fourth quarter SG&A increased 8% to $3.8 million with total operating expenses increasing 12% to $5.2 million. We made significant investments in 2022 to support the continued growth of our business and endured inflationary pressures, primarily in labor, insurance, and travel during the second half of 2022.

For 2022, we posted net income of $1 million or $0.02 per diluted share versus a net loss of $2.7 million or $0.05 per share. For the fourth quarter, we posted net income of $713,000 or $0.01 per diluted share versus $111,000 or breakeven per share for the same period last year.

2022 adjusted EBITDA, which adds back stock compensation to EBITDA, was $5.5 million or $0.10 per diluted share versus $2 million or $0.02 for 2021. Fourth quarter adjusted EBITDA was $1.7 million or $0.03 per diluted share versus $1.3 million or $0.02 for the same period last year.

Regarding the health of our company, we exited the year with $9.7 million in unrestricted cash and zero debt, which is an increase of $2.3 million from our 2021 ending cash balance. Given this cash increase and our expectations to further generate positive cash flow from operations and from a healthy increase in interest income where we benefit from increasing bank balances and higher interest rates, we have announced Board approval of a share repurchase plan of up to $5 million over the next 36 months.

Now turning your attention to our initial guidance for the first quarter and full year 2023 in the press release, the first quarter guidance reflects a number of moving parts that is not indicative of a trend for the year. First quarter revenues are always lower than Q4 as tax rebates go out and donations slow. Also, as previously discussed, last year's first quarter reflected some onetime benefits to our gross profit margin that we will not have this year, plus you have the mix shift in our pharma business to 100% copay as the prepaid business ended in mid-November.

Lastly, we are absorbing additional expenditures related to our class action defense and audit and tax fees that will cause SG&A expenditures for the year to be more heavily weighted to Q1 versus the rest of the year. The net impact of these and other factors mentioned in the press release leads us to guide Q1 revenues to be in the range of $10.1 million to $10.3 million, an increase of 23% to 25% over the same period last year. We expect gross profit margins between 52.5% and 53.5% and operating expenses to be between $6.2 million and $6.4 million. Interest income is expected to be in excess of $500,000 with a net loss of $50,000 to $150,000. Adjusted EBITDA is expected to be in the range of $700,000 to $800,000.

For the full year 2023, total revenues are expected to be in the range of $44 million to $46 million, an increase of 16% to 21%, with plasma making up approximately 90% of total revenue. This reflects ongoing growth in our plasma business, adding between 45 and 55 new centers during the year, offset by 16 centers we expect to lose, as we discussed in the press release.

As Mark discussed, we are excited about the traction we are experiencing in our pharma copay channel and expect pharma revenues to grow at least 30% over last year despite the loss of $1.5 million of pharma prepaid revenue we booked in 2022. Full year gross profit margins are expected to be between 52.5% and 55%, and operating expenses are expected to be between $23 million and $25 million. Depreciation and amortization is expected to be between $3.5 million and $3.7 million, while stock-based compensation is expected to be approximately $2.5 million. We expect to generate interest income of $2 million to $2.5 million.

Taking all of the factors above into consideration, we expect net income to be in the range of $2.5 million to $3.5 million or $0.05 to $0.06 per diluted share and adjusted EBITDA to be in the range of $6 million to $7.5 million or $0.11 to $0.14 per diluted share.

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

Questions & Answers

Operator
Thank you. We'll now be conducting a question and answer session. If you'd like to be placed into the question queue, please press star, one at this time. 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. For participants using speaker equipment, it may be necessary to pick up your handset before pressing star, one. 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
Good morning, everyone – good afternoon, everyone. I'm sorry, not morning. A couple of questions here – you had, it looks like you say you had a net gain. You added 91 centers, a net gain of 78, so there was 13. So, there is three more to be closed down in Q1 of this year because you said you're going to lose 16? Am I reading that correctly?

Jeff Baker
No. So, Gary, this was all last year. There were 13 centers that were closed in the fourth quarter. This year, in the Q1, we have a few centers that got sold, we have some centers that are being closed in March, and then another center is going to get sold in the fourth quarter. So, if you read the press release, it kind of lays out by quarter when everything hits, but it's 16 centers that are impacted in 2023.

Gary Prestopino
Okay. That's what I was trying – 16 centers in 2023. Okay. And then, what is this when you're talking about the business, you had a thing in there – gross margin was affected by supporting a new payment network. What was that all about?

Jeff Baker
Yeah, we've, as we announced last quarter, we stood up a Direct Connect to Mastercard. So now we have connections, Visa, Mastercard, Pulse.

Mark Newcomer
Discover.

Jeff Baker
Discover, etc. So, as you can imagine, until we get a lot of volume on that platform, there's a pretty big sunk cost, just monthly fees that we're having to eat.

Gary Prestopino
Okay. And then just a couple more here – are the southern border locations, are they back to pre-COVID levels, or are they still ramping up?

Mark Newcomer
I would say some of them are back to pre-COVID levels; some of them are still ramping up. So, we expect to see them continue to increase in volumes.

Gary Prestopino
Okay. And then, I'm just trying to write as – all right, I'll let somebody else go.

Operator
Thank you. Next question is coming from Peter Heckmann from D.A. Davidson. Your line is now live.

Peter Heckmann
Good afternoon, gentlemen. I wanted to follow up on the plasma. The operator of plasma collection centers that you noted last quarter, I believe, that you won for the first time. I guess how are you expecting that to contribute to your net new of approximately 30 to 40 centers in 2023?

Mark Newcomer
Yeah, at this point, that new RFP that we had won, we are still going through the contract phase of that. So there's been a slight delay in bringing those centers live in the first quarter as we anticipated. So those are not baked into our numbers at this point, and we will bake them in as we get closer to a determined launch date.

Peter Heckmann
Okay. Understood. And then in terms of the AAA deal, that sounds pretty interesting. If I heard you correctly, you have launched the gift card business, which -- and you plan to launch the reloadable. Any way to think about how many cards that might represent or the contribution that you might expect? I assume it will grow over several years, but that sounds like it could be significant, but don't want to get ahead of ourselves.

Mark Newcomer
Yeah, and neither do we at this point in time. So, we've been pretty comfortable in talking about the gift card side of it, but we really don't have the numbers at this point to really get into where it can go. So, we're kind of waiting on some additional detail at this point.

Peter Heckmann
Okay. All right. Last one for me is, it sounds like there's some move within Canada to start compensating for the donation of plasma, and maybe you've already started a pilot program there, but do you see opportunity there, or would that require a significant investment to accommodate the Canadian market Canadian market?

Mark Newcomer
Yeah, we certainly could. I don't know the numbers actually, we'd have to do an analysis to see if that's going to meet the needs and compare what the numbers are. But, yeah, there would be an investment in order to support that market for sure.

Jeff Baker
Right now, Pete, if you go and you look at the number of plasma centers that are in Canada, they're fairly benign. So, there would have to be a huge investment there. We're looking to other areas to build out our plasma centers. We'll add more in the first quarter than Canada will probably add all next -- all this year.

Peter Heckmann
That's fair. All right, I appreciate it.

Operator
Thank you. As a reminder, press star one to be placed into question queue.

Our next question is coming from Jon Hickman from Ladenburg Thalmann. Your line is now live.

Jon Hickman
Hi. Just one quick question. If you guys add 45 to 55 new centers this year, what percentage of the market will that give you? It seems like it'd be over 50% now.

Jeff Baker
No, Jon, the latest figures that we have out there is just under 1,100 centers in the U.S. We exited at 40 – 444 centers. I did the math for the 10-K; we had to disclose it. It was around 40%. If we add another 45 to 55 less the 16 that we're going to lose, so what's that? Put us around 29 to 39. We're probably going to hold market share because there's other -- they open up about 100 centers a year in the U.S., give or take.

Jon Hickman
Okay. Okay. Thanks.

Jeff Baker
Yep.

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
Thanks, Kevin. Want to thank everybody this evening for joining us. A special thanks goes out to all of our employees and to our Board for the support that we've had and the support that we will get through 2023. I believe that 2023 will be an exciting year for Paysign, and we're looking forward to updating you on the next call. Thank you all very much and have a great day.

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: 25:28