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Second Quarter 2024
Earnings Call

July 31, 2024, 5:00 p.m. Eastern Time

Presenters:
- **Mark Newcomer** – *Paysign – Co-Founder, Chairman and Chief Executive Officer*
- **Jeff Baker** – *Paysign – Chief Financial Officer*
- **Matt Turner** – *Paysign - President of Patient Affordability*

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

Operator
Good afternoon. My name is Kevin, and I'll be your conference operator, today. At this time, I'd like to welcome everyone to the Paysign Inc. Second Quarter 2024 Earnings Conference Call.

After the speaker's remarks, there will be a question-and-answer session. If you would like to be placed in the question queue, you may press "*", "1" on your telephone keypad at any time.

As a reminder, this conference call is being recorded.

The comments on today's call regarding Paysign's financial results will be on a GAAP basis, unless otherwise noted. Paysign's earnings release was disseminated to the SEC earlier today and can be found on the Investor Relations section of our website, paysign.com, which includes reconciliations of non-GAAP measures to GAAP-reported amounts.

Additionally, as set forth in more detail in our earnings release, I'd like to remind everyone that today's call will include forward-looking statements regarding Paysign's future performance. Actual performance could differ, materially, from these forward-looking statements.

Information about the factors that could affect future performance is summarized at the end of Paysign's earnings release and in our recent SEC filings. Lastly, a replay of this call will be available until October 29, 2024. Please see Paysign's second quarter earnings call announcement for details on how to access the replay.

It's now my pleasure to turn the call over to Mr. Mark Newcomer, CEO. Please go ahead.

Mark Newcomer – ***Paysign Co-Founder and Chief Executive Officer***
Thank you, Kevin. Good afternoon, everyone, and welcome to Paysign's second quarter earnings call. I'm Mark Newcomer, the President and CEO of Paysign. Alongside me today for our discussion

is Jeff Baker, our Chief Financial Officer. Later during the question and answer session, we will be joined by Matt Turner, our President of Patient Affordability, and Matt Lanford, our Chief Payments Officer.

Today, we shared our financial results for the second quarter of 2024. I'm pleased to report that we've achieved remarkable growth, both sequentially and year-over-year, and in both our top and bottom lines. Our revenue for the second quarter reached $14.3 million, a robust increase of nearly 30%, compared to the second quarter of 2023, and an 8.7% increase from the first quarter of 2024.

Our adjusted EBITDA increased 96% to $2.24 million, translating to $0.04 per fully diluted share, a substantial rise from $1.14 million, or $0.02 per fully diluted share, a year earlier.

A significant highlight of this quarter is the exceptional performance of our Patient Affordability business, which has proven to be a major catalyst for our growth.

The revenue from this segment has impressively increased by 267% from the same quarter last year, from $730,000 in the second quarter of 2023, to roughly $2.7 million in the same quarter, this year. The number of claims processed increased by 365% versus the same quarter, last year.

Patient Affordability, alone, contributed to 59% of our total revenue growth, year-over-year, and has been pivotal in our 200 basis point increase in gross margin. We expect to see this margin expansion continue as Patient Affordability remains the dominant growth driver of the company.

During this period, we added eight new Patient Affordability programs, including both retail and specialty brands, bringing our total to 61 active programs. We are particularly proud of the confidence our clients have in our solutions, which has led to multiple wins from many of them.

For example, in the third quarter of 2023, we onboarded a new cornerstone client, AstraZeneca. Since then, we have increased the number of programs from their initial four to a total of 12, by the end of the second quarter.

The AstraZeneca programs encompass a mix of retail and specialty therapies, covering a wide array of therapeutic classes, and include both new launch and transition programs. This is only one example as we currently manage programs for six of the 20 largest pharmaceutical companies in the world.

Our sales pipeline remains extremely robust, filled with promising opportunities slated for launch later this year and into 2025. This forward momentum positions us to continue scaling our Patient Affordability solutions, as we secure our leadership position in the market. We are confident that our operational cash flow will, robustly, support these ambitions.

Additionally, our plasma donor compensation business, also showed strong performance this quarter, with plasma revenues rising to $11.3 million, a 13% increase from the same quarter last year, and an 8.7% increase, over first quarter of this year. This revenue growth is supported by a 4.4% increase in revenue, per center, from $7,581 in the second quarter of last year to $7,916 in this year.

We added eight new plasma centers this quarter, reaching a total of 477 centers, and we plan to add another five to 10 centers by year-end. Our expansion underscores our commitment to helping our clients focus on enhancing center productivity, after a period of rapid expansion. We are anticipating moderate and stable growth in our plasma donor compensation business in the foreseeable future.

To conclude, the second quarter of 2024 marks another period of significant growth, particularly for our Patient Affordability business. The investments we are making in that business, is poised to yield substantial long-term revenue growth, enhancing shareholder value, considerably.

We remain dedicated to pioneering advanced and innovative fintech solutions that address key challenges in Patient Affordability and healthcare payments, and beyond. With our steady growth in the plasma business and ongoing exploration of new opportunities in the evolving payments landscape, we are well positioned to capitalize on future opportunities and deliver substantial value for our shareholders.

I would like to extend my deepest thanks to every member of the Paysign team for their relentless effort and commitment. It is your hard work and dedication that propels our success.
I will now pass the call over to Jeff, who will delve deeper into our financial details for the quarter.

Jeff Baker – *Paysign Chief Financial Officer*
Thank you, Mark. Good afternoon, everyone. As Mark said, we had another solid quarter. Plasma donor compensation revenue increased $1.26 million, versus the same period last year, or 12.6%, to $11.27 million, driven by more plasma centers, 477 versus 443, an increase in the average monthly revenue per plasma center of $7,916 versus $7,581, a 12.7% increase in gross dollar card loads, and an 11.2% increase in the gross spend volume, all while the average load amounts remain fairly steady.

Pharma Patient Affordability revenue increased $1.95 million, or 267%, to $2.67 million, primarily driven by the addition of 30 net new pharma Patient Affordability programs, launched over the past 12 months. Pharma Patient Affordability revenue equated to 18.7% of total revenue during the quarter versus 6.6%, during the same period, last year. We exited the quarter with 61 active pharma Patient Affordability programs, an increase of 18 programs, since the end of 2023.

Other revenue increased $86,000, or 28.9%, to $383,000, due to the growth in our payroll, retail, and other corporate incentive businesses. As in previous calls, with all of the details we provided in the press release, and that will be available in our 10-Q filing tomorrow morning, I will simply hit the financial highlights for the second quarter of 2024 versus the same period, last year.

First, second quarter 2024 total revenues of $14.3 million increased $3.3 million, or up 29.8% versus the same period, last year. Gross profit margin for the quarter was 52.9% versus 50.9% during the same period last year, an improvement of 200 basis points. SG&A for the quarter increased 13.5% to $6 million, with total operating expenses increasing 19.1% to $7.5 million.

We continue to make significant investments in IT and personnel to support the continued growth of our business, especially our Patient Affordability business. We exited this quarter with 149 employees versus 108 during the same period last year.

For the quarter, we posted a net income of $697,000, or $0.01 per fully diluted share versus a net loss of $104,000, or just under breakeven per share for the same period, last year.

We recorded a tax expense of $242,000 during the quarter, for an effective tax rate of 25.8%. Our fully diluted share count for the quarter was 55.9 million shares.

The second quarter adjusted EBITDA, which is a non-GAAP measure that adds back stock compensation to EBITDA, was $2.2 million or $0.04 per diluted share versus $1.1 million, or $0.02 per diluted share for the same period, last year.

This equates to a 96% year-over-year growth in our adjusted EBITDA. The fully diluted share count for the quarters used in calculating the per share amount was 55.9 million shares and 54.5 million shares, respectfully, which reflects additional in-the-money options that were previously out-of-the-money.

The adjusted EBITDA margin improved to 15.6% versus 10.3%, during the same period last year, further highlighting the positive operating leverage in our business model.

Regarding the health of our company, we exited the quarter with an adjusted $8.6 million in unrestricted cash, and zero debt. This was a $1.7 million decline from the adjusted unrestricted cash balance of $10.3 million at the end of 2023, but an increase of $1.6 million from the adjusted unrestricted cash balance of $7 million at the end of Q1, 2024.

The adjusted amounts take out the impact of accounts receivable, accounts payable and cash collections related to pass-through invoicing of our Patient Affordability business. As discussed in the past, Patient Affordability customers' invoice at the end of the period to reimburse refunds used to cover related copay amounts for the monthly Patient Affordability claims.

The changes in these balances do not equate to the revenue per claim we charge the pharmaceutical companies for paying in such claim amounts. We expect that, as the business grows, so will the fluctuations in AR, AP, and unrestricted cash.

Restricted cash increased $10 million to $102.2 million from December 31, 2023, primarily due to the increases in funds on cards of $3.7 million and customer deposits for our plasma and pharma customers of $6.3 million. Restricted cash are funds used for customer card funding and pharmaceutical claims, with a corresponding offset under current liabilities.

As we did not complete any share repurchases during the second quarter, $3.9 million remains outstanding under our share repurchase program.

Now turning your attention to our full year 2024 guidance. Due to the outperformance of our business during the first two quarters of the year, relative to our initial expectations, we are raising our full year guidance, as follows. Total revenues are estimated to be in the range of $56.5 million to $58.5 million, reflecting year-over-year growth of 20% to 24%.

Plasma revenues are estimated to account for approximately 78% of total revenue, while pharma revenue is estimated to account for approximately 20% of total revenue. Full year gross profit margins are expected to be between 54% and 55%, reflecting increased revenue contribution from our Patient Affordability business.

Operating expenses are expected to be between $30 million and $32 million, as we continue to make investments in people and technology to support the growth of our business. Of this amount, depreciation and amortization are expected to remain unchanged between $6 million and $6.5 million, while stock-based compensation is expected to remain unchanged between $2.7 million and $3 million.

Given the continued increases in our average daily balance of unrestricted and restricted cash and the current interest rate environment, we expect to generate interest income of $3 million to $3.2 million. We expect our tax rate to be between 28% and 29%, and our fully diluted share count outstanding to be 55.8 million to 56.0 million shares.

Taking all of the factors above into consideration, we expect net income to be in the range of $2 million to $3 million, or $0.04 to $0.06 per diluted share, and adjusted EBITDA to be in the range of $9 million to $10 million, which is 15% to 17% of total revenues, or $0.16 to $0.18, per diluted share.

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

Questions & Answers

Operator
Thank you. We will now be conducting a question-and-answer session. If you would like to be placed in the question queue, please press "*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. Once again, that's "*", "1" to be placed in the question queue.

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

Gary Prestopino – *Barrington Research*
Hi. Good afternoon, everyone. A number of questions here. First of all, on the Patient Affordability business, how many pharmaceutical companies are you currently working with now, within all of your programs that you have?

Matt Turner – *Paysign President Patient of Affordability*
Hi. This is Matt. I should have that number in front of me, but I don't. I think it's in excess of 40, as it stands right now.

Jeff Baker
Okay. Keep in mind, Gary, some of those are direct. Some of those are through hubs, which represent a number of different pharmaceutical companies. So it's hard--I mean, we have the number, but let's say that it's XYZ Pharma Company, if they're coming through a hub with another XYZ Pharma Company has no relationship. So, I don't know if that helps you, but like Matt said, it's in excess of 40.

Gary Prestopino
No, I just wanted to get an idea of the diversification of the customer base. And then as you look at the pipeline building, is a lot of that pipeline coming from pharmas that you have not done anything for, or is most of the pipeline built just with your existing clients?

Matt Turner
No, I would say a majority of the pipeline is new clientele.

Gary Prestopino
It is? Okay. New clients. Right. Then just for our purposes.

Matt Turner
Yeah, I mean, it's a mix, right? So it's not to say we, so obviously, as you heard Mark's commentary about the AstraZeneca business and the movement there, four programs up to 12. We do have clients that are continuing to add programs, but if you look at the pipeline and between, say, now and the end of next year, the lion's share of that pipeline is going to be new clients.

But many of those clients will be launching multiple programs at one time. So, when we look at a cornerstone account, we're not looking at that just from the perspective of, say, one brand. Our goal is to go in, get an MSA, prove ourselves with them, and then begin to migrate more and more brands, over time. So that's kind of the goal there. So there's a mix.

There's certainly existing clients that are going to grow out, as they get new indications for, or they get new products that they're launching, or potentially they're not satisfied with the service, or the product to their current vendor. They may move stuff over, but then we have a decent chunk of stuff that is entirely, there'll be new MSAs. It's going to be all new paper.

Gary Prestopino
And then just lastly, and I'll let somebody else go, how are these programs structured? Do you have an actual contract that runs for a duration of time, or is it something that the pharmaceutical company can walk away from, if they're unhappy with the performance of what you do?

Matt Turner
Yeah, so we have master service agreements that are varying in length. I mean, anywhere from five, I guess, two to five years, I think is probably about the average that we see. And then we have statement of work that will guide each program. Some of those SOWs, some of those MSAs do contain outs for our clients. So it's not like they're locked in forever.

So, they can leave if they're unhappy with the services, which is also one of the reasons why you hear Mark and Jeff both talk about investing the financial resources into people. And we do that so that we don't have customer service issues, and that we make sure we're providing the level of service that they want.

Jeff Baker
And Gary, listen, hey, a lot of these pharma companies are international. So, the idea of a long-term locked in contract really only exists in the United States. If you go to Europe and you're looking at

contracts overseas, over there, pretty much all of them have 30, 60, 90 days out for whatever reason.

So, we have to earn the business, every day. And we're willing to put our money where our mouth is. And the other good thing is if you do a good job for the pharmaceutical guys, they'll stay with you. So they're very loyal, but you've got to earn their business, every day.

Gary Prestopino
Okay. I'll let somebody else go. I do have some follow-up questions.

Operator
As a reminder, that's "*", "1" to be placed in the question queue. Once again, please press "*", "1" to be placed in the question queue, at this time. One moment please while we poll for further questions.

Gary, please go ahead with your follow-up. Your line is now live.

Gary Prestopino
Okay. And Matt, could you possibly size up the total TAM on a worldwide basis for this business?

Matt Turner
So, I don't want to be pedantic here, but I'm not going to size up the TAM on a worldwide basis, because Patient Affordability as a product is a byproduct of the U.S. healthcare ecosystem. And it does not exist in the form that we know of it at Paysign in other countries. I'm sure there are some examples of it as far as like a mail-in rebate, or something like that. But we believe, right now, the TAM is north of $500 million.

Gary Prestopino
Okay.

Matt Turner
It takes a lot of back-of-napkin math to kind of get there. We've worked with some consultants inside the industry to really try to help us narrow down that answer. No pharma company comes out and says, hey, last month across our entire company, we processed or we helped 90,000 patients, last month. They don't tell us that, so we don't have hard numbers to go off of. We kind of have to look at industry trends.

Gary Prestopino
Okay. And then as you're building these programs, I mean, obviously, you're going to have very strong positive impact to your gross margin. But in terms of the SG&A to support it, is there a lot of leverage there? I mean, I'm looking at your SG&A expenses just this quarter, and they were up about 13.5%. And your pharma revenues were up over 200%. But I just try to get an idea. As you add programs, can you scale this to where you don't have to--you can eventually start reducing the additional personnel that you need to support what you're doing?

Jeff Baker
So, Gary, so listen, a couple of things to look at on the OpEx. One of the bigger increases there is D&A. And that's a byproduct of us capitalizing software development costs, which is part of the growth. We're doing a lot of IT development. And so you got to kind of back that out of the number, back out your stock comp, and then you're going to kind of get to an SG&A number.

Now, the other thing to look at on the leverage side is your adjusted EBITDA operating margin. So, we did 15.6% this quarter, up from 10.3%, last year. First quarter we did 12.8% versus 7.1%. So, you are seeing there in the numbers that there is operating leverage here. But make no mistake about it. I mean, we are having to invest as we grow these programs.

And part of the guidance that we gave, like, we've already been given, indications of opportunities that we'll see at the--towards the fourth quarter of this year in new pharma programs. And we're going to have to hire people in front of that. We can't, you know, we can't bring those guys on and then hire, afterwards. So, that's reflected in the guidance. That 30 plus million in SG&A for the year is expected hirings, so we're going to have to make in account management.

So, keep in mind, when I bring on big pharma companies, like an AstraZeneca, I've got to hire account managers, I've got to hire at least one senior account manager, a support account manager. I've got to hire claims analysts, I've got to hire call center. I mean, there's hiring across the business, but it is the best way for you to look at are we getting operating leverage to the business is that adjusted EBITDA margin.

Gary Prestopino
Okay. No, it's all good. I'm just trying to get an idea of how this business works. Okay. Thank you very much. I appreciate it. Appreciate your time.

Mark Newcomer
Thank you.

Operator
Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further closing comments.

Mark Newcomer
Thank you, Kevin. Thank you, all, for joining today's call. Your continued interest and support fuels our journey towards transforming healthcare payments and enhancing patient access to vital treatments. We look forward to sharing more about our progress in the coming quarters, and to build a healthier future, together. Have a great day, everyone. See you next time.

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.

Call Duration – 24:06