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Third Quarter 2024
Earnings Call

November 5, 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:
- **Pete Heckmann** – *D.A. Davidson*
- **Gary Prestopino** – *Barrington Research*
- **Jon Hickman** – *Ladenburg Thalmann*

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.'s Third Quarter 2024 Earnings Conference Call. After the speakers' remarks, there'll be a question and answer session. As a reminder, this conference is being recorded. If you'd like to be placed into question queue, you may press star, one at any time.

The comments on today's call regarding Paysign's financial results will be on a GAAP basis unless otherwise noted. Paysign's earnings release will be 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 are 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 February 5, 2025. Please see Paysign's third 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 third quarter earnings call. I'm Mark Newcomer, President and CEO of Paysign. Joining me today is Jeff Baker, our Chief Financial Officer. Later, during our Q&A session, we will also be joined by Matt Turner, our President of Patient Affordability, and Matt Lanford, our Chief Payments Officer.

Today, we announced our financial results for the third quarter of 2024, and I'm pleased to report that Paysign has demonstrated meaningful growth in both revenue and profitability consecutively and year-over-year. Revenue for the third quarter was $15.3 million, an increase of 23% compared to the same period in 2023 and a 6.5% increase from the prior quarter. Our adjusted EBITDA rose 20.6% to $2.8 million or $0.05 per fully diluted share, up from $2.4 million or $0.04 per fully diluted share a year earlier.

Gross margins also improved significantly, increasing by 440 basis points to 55.5% compared to 51.1% in the same period last year, driven largely by the expansion of our patient affordability business. Revenue from our patient affordability business grew by an impressive 219% year-over-year, reaching $3.3 million in the third quarter, up from roughly $1 million in the same quarter last year. Claims processed rose by 430% compared to the same period last year. This marks the fourth consecutive quarter of triple-digit year-over-year revenue growth for patient affordability, which continues to be a major contributor to our overall success.

We finished the quarter with 66 patient affordability programs, with additional launches continuing throughout the remainder of the year. We are encouraged by the trend of existing clients bringing additional programs to us, which not only shortens the sales cycle but also reduces the program acquisition cost while creating immediate revenue opportunities as many of these additional programs are transition programs.

In the fourth quarter, we expect to onboard several programs from both new and existing clients, including a new cornerstone account, one of the world's largest pharmaceutical companies. Our forward momentum positions us well for continued growth throughout the remainder of this year and well into 2025. Our pipeline remains strong with a mix of pharmacy-based retail specialty and medical benefits programs, highlighting our strategy to diversify revenue streams. Our current program composition is weighted towards specialty drugs with an emphasis on oncolytics.

Programs launched in the third quarter of this year gave us additional claim volume in the retail space, something we believe will drive further growth as we pursue new opportunities in this market. Our plasma donor compensation business faced some challenges this quarter with hurricanes and staffing shortages affecting operations in our client centers. Despite these headwinds, revenue grew to $11.4 million, representing a 3.4% increase year-over-year and a 1.5% increase from the second quarter. We did experience a slight decrease in revenue per center to $7,991 this quarter versus $8,041 last year relating to these factors.

We added one plasma center during the quarter, bringing our total to 478 centers, and we plan to add another two centers by the end of the year as new center openings remain muted. While growth in the plasma business has been tempered by external forces outside of our control, we remain committed to enhancing the productivity and efficiency of our services to the centers.

Overall, we are pleased with our performance in the third quarter, which was driven primarily by outstanding growth in our patient affordability business. This segment is on its way to becoming our primary revenue driver. We believe the investments we are making in this area will yield substantial long-term growth and create significant shareholder value.

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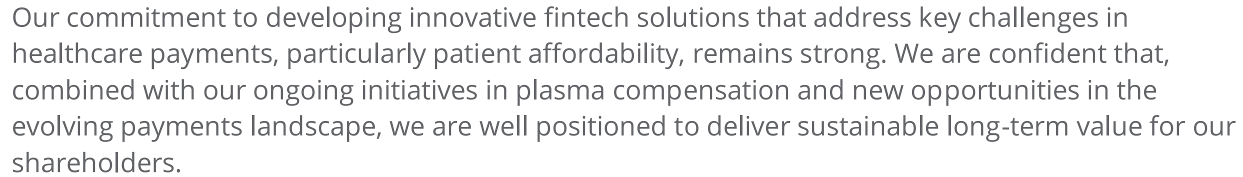

Our commitment to developing innovative fintech solutions that address key challenges in healthcare payments, particularly patient affordability, remains strong. We are confident that, combined with our ongoing initiatives in plasma compensation and new opportunities in the evolving payments landscape, we are well positioned to deliver sustainable long-term value for our shareholders.

I want to extend my gratitude to each member of the Paysign team for their relentless dedication and hard work. It is your commitment that drives our success. I will now pass the call over to Jeff, who will provide further details on our financial performance for the quarter.

Jeff Baker – *Paysign - Chief Financial Officer*
Thank you, Mark. Good afternoon, everyone. As Mark said, we executed on another good quarter. Plasma donor compensation revenue increased $378,000 versus the same period last year, or 3.4%, to $11.44 million. This was primarily driven by increases in the number of plasma centers, 478 versus 462, and to a lesser extent, modest increases in gross dollar cards loads of 1.8% and gross spend volume of 0.4%. This was offset by a modest decline in the average load amounts. Net-net, the year-over-year average monthly revenue per plasma center declined slightly to $7,991 versus $8,041.

As Mark mentioned, our centers experienced reduced availability related to weather and staffing shortages, and we expect these same issues to have an impact on the growth of our Q4 plasma donor compensation revenue. Free cash flow from this business remains strong, which is helping to support the rapid growth in our pharma patient affordability business.

Pharma patient affordability revenue increased $2.25 million, or 219%, to $3.27 million, primarily driven by the addition of 32 net new pharma patient affordability programs launched over the past 12 months. Pharma patient affordability revenue equated to 21.5% of total revenue during the quarter versus 8.3% during the same period last year. We exited the quarter with 66 active pharma patient affordability programs, an increase of 23 programs since the end of 2023.

Other revenue increased $230,000, or 73.5%, to $542,000 due to the growth in our payroll, retail, and other corporate incentive businesses. We continue to look for ways to improve the profitability of this other revenue stream, which lacks the scale of our other businesses and experiences higher fraud costs as a percentage of revenue.

As in previous calls, with all 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 third quarter of 2024 versus the same period last year. Third quarter 2024 total revenues of $15.3 million increased $2.9 million or 23% versus the same period last year. Gross profit margin for the quarter was 55.5% versus 51.1% during the same period last year, an improvement of 440 basis points. SG&A for the quarter increased 32.4% to $6.2 million with total operating expenses increasing 35.6% to $7.8 million. $520,000 of the operating expense increase was related to higher depreciation and amortization costs. We continue to make significant investments in both IT and personnel to support the continued growth of our businesses, especially our patient affordability business. We exited this quarter with 164 employees versus 112 during the same period last year.

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For the quarter, we posted a net income of $1.4 million, or $0.03 per fully diluted share, versus net income of $1.1 million, or $0.02 per fully diluted share, for the same period last year. We recorded a tax expense of $54,000 during the quarter for an effective tax rate of 3.6%. The third quarter adjusted EBITDA, which is a non-GAAP measure that adds back stock compensation to EBITDA, was $2.8 million, or $0.05 per diluted share, versus $2.3 million, or $0.04 per diluted share, for the same period last year. This equates to a 20.6% year-over-year growth in our adjusted EBITDA.

The fully diluted share count for the quarters used in calculating the per share amount was 56.1 million shares and 53.5 million shares, respectively, which reflects additional in-the-money options that were previously out-of-the-money. The adjusted EBITDA margin declined slightly to 18.5% versus 18.9% during the same period last year due to investments being made to support our patient affordability business.

Regarding the health of our company, we exited the quarter with $10.3 million in unrestricted cash and zero debt despite the use of $360,000 during the quarter to repurchase shares. This was equal to the adjusted unrestricted cash balance of $10.3 million at the end of 2023 and an increase of $1.7 million from the adjusted unrestricted cash balance of $8.8 million at the end of Q2 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 are invoiced at the end of the period to reimburse funds used to cover related co-pay amounts for monthly patient affordability claims. The changes in these balances do not equate to the revenue per claim we charge the pharmaceutical companies for paying such claim amounts. We expect that, as the business grows, so will fluctuations in AR, AP, and unrestricted cash.

Restricted cash increased $7.9 million to $100.3 million from December 31, 2023, primarily due to increases in customer deposits for our plasma and pharma customers of $8.5 million, offset by a decrease in funds on card of $556,000. Restricted cash are funds used for customer card funding and pharmaceutical claims with the corresponding offset under current liabilities. We repurchased 100,000 shares of our common stock in a private purchase at an average cost per share of $3.60. At the end of the quarter, $3.5 million remained outstanding under our share repurchase program.

Now turning your attention to our guidance for the remainder of the year, we continue to expect total revenues to be in the range of $56.5 million to $58.5 million, reflecting year-over-year growth of 20% to 24%. Full year gross profit margins are still expected to be between 54% and 55%, reflecting increased revenue contribution from our pharma patient affordability business. Operating expenses are still 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 is expected to be approximately $6 million, while stock-based compensation is expected to be approximately $2.6 million. As disclosed in the legal section of our 10-Q and in our 8-K released earlier today, we expect to have onetime legal expenses during the fourth quarter related to the settlement of our class action and derivative lawsuits. This expense was not anticipated at the time we provided financial guidance, but we still anticipate our operating expenses to be within the previous guided ranges.

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Given the continued increases in our average daily balances of unrestricted and restricted cash and the current interest rate environment, we expect interest income of approximately $3.1 million. We expect full year tax rate to be between 19% and 19.5% and our fully diluted share count outstanding to be between 55.5 million and 56 million.

Taking all of the factors above into consideration, we expect net income to be in the range of $3 million to $3.5 million, or approximately $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 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 on your telephone keypad. Once again, that's star, one to be placed into the question queue. One moment please while we poll for questions.

Our first question today is coming from Pete Heckmann from D.A. Davidson. Your line is now live.

Pete Heckmann – *D.A. Davidson*
Hey, good afternoon, gentlemen. Thanks for the taking the question. Wanted to see if you could go back and talk a little bit about the additional pharma campaigns added during the quarter and then some of the comments you made around the certain types of pharma campaigns, as well as the comment about -- I think it was a very large -- I don't think you used the word large, but an important campaign from one of the largest drug manufacturers. Could you just go into that in a little bit more detail? That went by really quickly. I didn't have the time to take all the notes, and I'd like to get any incremental detail we could in terms of where you are now having success and where you're moving to with these patient assistance programs.

Matt Turner – *Paysign, President Patient of Affordability*
This is Matt Turner. Let's kind of start with the cornerstone account. If you kind of look at the business as a whole right now, we're sitting on three or four what we would consider cornerstone or strategic accounts. These typically represent larger manufacturers that have broad portfolios of products covering a variety of therapeutic classes.

They may have specialty drugs, which typically come from a specialty pharmacy. These are high-cost drugs, $10,000 and up most times. Then they'll have retail products. These are your typical brick-and-mortar stores. And then most of them will also have products that are hybrid programs where they're run on the -- like the medical insurance side, not the pharmacy side, kind of the legacy stuff we used to call buy-and-bill. So we added -- we completed a contract with one, and we'll launch programs for them in this quarter of this year.

Your other question was around the new programs that we launched. Can you kind of repeat that part of the question because I didn't understand exactly what you were asking there?

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Pete Heckmann
Sure - just trying to get a better feel, as you grow the total number of campaigns or programs, are we getting closer to being able to have kind of an average revenue per program or an average term, or are we still seeing that the combination of these very, very expensive kind of in-office treatments versus retail just makes it so that an average is just not really that relevant?

Matt Turner
Yeah, an average, is not -- it's not relevant here. And it also depends on the types of claims that we're running as to the revenue per claim, things like that. You may have one program that's going to run 30,000, 40,000, 50,000 claims a month, and you could have another program that's going to run two if it's in a rare disease state.

Obviously, those aren't priced exactly the same. So there's not really a place to put an average to where it would make sense to really say, hey, every program you're going to bring on now is going to effectively add “x” thousands of dollars a month. There's obviously some kind of minimums that are in there around some administrative fees and things like that. But when you get into the transactional area, there's no real way to average that out.

Pete Heckmann
Got it, okay. And then last question and I'll get back in the queue, but just based upon the really strong growth you've seen in pharma year-to-date, and I'm sure you have some decent visibility to the fourth quarter, I guess, is there any type of color, early color you can give us, preliminary color on how you think this segment might grow in 2025?

Matt Turner
I mean, if you're asking for a number, I'll have to defer that one to Jeff and let him issue the numbers guidance. I think I'd kind of stand by the comment that we have a really strong pipeline. These additional -- the cornerstone accounts that we currently have and the one that we just added really open up the ability to what we call pharm inside.

If you were to be able to see everything we're doing over here, you would see one or two programs come over. It's kind of a test bed for them to make sure we know what we're doing, that our solutions work the way we say they're going to work. And the moment that comes along and we start saving them money or execute really well, we start to see other programs shift over. And that's -- we're going to see -- I think we're going to see increased business from current clients moving into next year. That's what has helped fuel some of the growth this year - certainly not all of it, but it has helped.

And then as we move into -- we're already selling for -- we've been selling for 2025 for the last two quarters now as we look at FDA approvals and things like that. Next year, I'd say it looks strong, and I'll let Jeff kind of deal with the numbers if that pops up.

Jeff Baker
Yeah, Pete. So, we obviously haven’t given any guidance. This year, it’s looking like, for the full year, we still stand by that patient affordability is going to be about 20% of total revenues for the year. It was 21.5% for the quarter. Next year, that’s obviously going to increase. Whether that’s 25-ish

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percent or so, I think, is definitely doable. We do have a strong pipeline, like Matt just mentioned, but a lot of it comes into timing when some of these programs launch.

Also keep in mind, as far as guidance goes, keep in mind, first quarter is going to be strong for this business because of everything resets at 12/31 from a claims perspective. Some of these programs, the claims, because people reached their out-of-pocket maximums, they don't get paid as you go through the remainder, as you get towards the second half of the year. So typically, this business will show stronger growth in the first and the second quarter if we weren't going to add any more businesses throughout the rest of the year, which I don't think that's a very good assumption.

But definitely, you should see some pretty strong numbers in the first and second quarter, for sure. And we'll get more -- I'll give more information as we get closer to giving guidance as we get through the first quarter and we have some more visibility on what programs exactly have launched as we go through the year.

Pete Heckmann
I appreciate it.

Operator
Thank you. Next question today is coming from Gary Prestopino from Barrington Research. Your line is now live.

Gary Prestopino – *Barrington Research*
Yeah, just a question on the plasma business - not really with the hurricanes as much, but what is going on with the staffing shortages? Is it just that the economy is so strong, they can't get people to work in these centers?

Mark Newcomer
Gary, it's Mark. I would say -- I don't know that I would say it's because the economy is strong that we can't get people to work. It's just there's a lot -- as new centers have grown over time, they've kind of picked and pulled from their competitors, and it's just become more competitive to get access to that labor.

Gary Prestopino
Okay. And then switching over to the specialty business or the patient affordability business, could you give us an idea of, as you size the market, how big is it for the services that you provide?

Matt Turner
Yeah, I think the last call, we covered a little bit of this. I think our conservative estimate that we're looking at right now, we consider this TAM to be north of $0.5 billion. So again, that's -- we really have to work hard to piece together some numbers, but that's where we're pretty confident saying that we feel like this TAM is north of $500 million.

Gary Prestopino
So is this all -- this market right now, is this a situation where you're winning this business through competitive takeaways, or are you winning this business because various pharmaceuticals are signing up for your program because they can see the benefit it gives to them?

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Matt Turner
Both. There's quite a bit of what we're doing is what we call transition programs, so that's a product that's already been out there. It's in the marketplace, but the incumbent vendor is either maybe not living up to the standards that the pharma manufacturer is looking for or they're not being innovative.

We've come out with some very innovative stuff in this space. There hasn't really been a lot of innovation for the better part of a decade. And the solutions that we're bringing in some areas are -- the best way to put it, we're lightyears beyond where some of our competitors are, even though they've been in the space longer. We've got a good mix of, hey, brand new-to-market drug, never been seen before, we're going to be the first vendor touching that product and as well as established products.

And that's also what's helping to drive the claim volume is that the programs that we're acquiring now have a good mix of transition, so we're not waiting for that drug to ramp up patient acquisition. The patient acquisition has already been done over the last two or three years, and so now they're established. And when we onboard that program, we might immediately onboard 15,000 claims day one as opposed to it took them two years to get to 15,000 claims.

And our sales team focuses on both, right? We're not just looking for new-to-market products and we're not just looking for transitions. It's really part of a rounded-out diversification of our revenue streams to where we know there's programs we're going to bring that have immediate impact on revenue, and then there's some that is just going to take a while to build.

Gary Prestopino
And then just once again, who are some of the other players in this space?

Matt Turner
We're pretty unique in the space in the fact that we only do patient affordability. There may be one or two other companies out there that are just doing patient affordability. But if you kind of look at the broader market of who else offers the services that we offer, you would see companies like ConnectiveRx, TrialCard, Eversana. Those are all, I think, private equity-backed companies. And then IQVIA and McKesson -- McKesson has a subsidiary called CoverMyMeds, and both of those companies are publicly traded.

But again, it's kind of important to mention that those people offer a breadth of services and to the marketplace appear like big box stores, whereas we offer expertise in one specific area of this, which is why we think we're being as effective as we are capturing this business.

Gary Prestopino
Okay. And then lastly, Jeff, is there any reason we have to wait until the 10-Q is published to get what that legal expense was for the quarter or if that's going to hit in Q4, or can you give it to us now?

Jeff Baker
Well, there's disclosure in the 10-Q that's coming out tomorrow morning on the settlement piece, which is, if memory serves me right, just over $600,000, if I recall. And that will be paid by our

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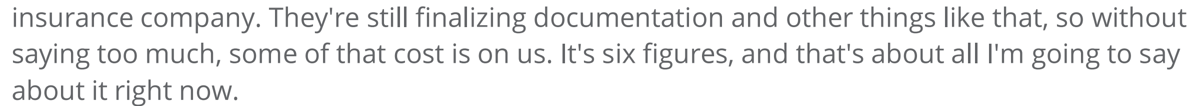

insurance company. They're still finalizing documentation and other things like that, so without saying too much, some of that cost is on us. It's six figures, and that's about all I'm going to say about it right now.

Gary Prestopino
Okay. So without these legal fees, it's safe to say we would have got a raise in the range of adjusted EBITDA for the year?

Jeff Baker
The range we gave right now, Gary, I mean, the range we gave last quarter was we raised it to $9 million to $10 million. We still feel comfortable coming in that for the full year. Through this quarter, we're in at $6.7 million, so you kind of can extrapolate back from that. But we'll still be in that range. There's a couple of moving pieces but there will be an expense in there that's six figures that was not there when we gave this $9 million to $10 million.

Gary Prestopino
Okay. Thank you.

Jeff Baker
Yeah.

Operator
Thank you. As a reminder, that's star, one to be placed into the question queue.
Our next question is coming from Jon Hickman from Ladenburg Thalmann. Your line is now live.

Jon Hickman – *Ladenburg Thalmann*
Hi. I was just wondering if you -- Jeff, if you could elaborate a little bit on where you think gross margins might go for later this year and into next as the patient affordability stuff becomes 25%, 30% of the business.

Jeff Baker
Yeah, sure. For the year, we've given guidance of 54% to 55%. Obviously, we're lower in the first half of the year and higher in the second half of the year because of the percentage of revenue coming from patient affordability. So I think it'll be up sequentially over where we were this quarter.

Going forward, as that mix changes, I think we could probably add 100 to 200 bps in margin on a blended basis year-over-year. We just -- there's a lot of moving pieces, like I said, patient affordability, when the programs launch, etc., what's going on with plasma. We think fourth quarter is going to see some impacts from the weather again in employment. So margins in the plasma business were up sequentially and up year-over-year.

We're trying to do everything we can to continue to maximize the operating performance out of that business and garner the cash to help deploy that in other growth areas of our company. But looking at my crystal ball, that's about all I can say.

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Jon Hickman
Okay. So one other question - are you starting to attract some attention in those market space because of your unique technology? And are you -- is that technology protected somehow, patents, or is there just secret sauce?

Jeff Baker
There's a couple of things. One -- we talked about this in the past. I mean, we -- one thing that we do differently than our competitors, we've opened book pricing to our customers. This industry in the past really hasn't been that transparent on pricing. We're very transparent on pricing, number one. Number two, we do have some IP that our competitors don't have. It is not patented, per se, but I think the best way to say it is we're the only ones privy to that technology because we've put it in our message so no one else has it.

I don't know, Matt, if there's anything else you want to add?

Matt Turner
It's processes, and process patents are rife with problems. We did look at patenting what we were doing and, after some discussion, determined it wasn't an appropriate use of funds. I think if you look at what we're doing, we've got a group of people here that have worked together to figure out a way to write some algorithms and do some stuff with claims that nobody else figured out, and that's the industry. But that's where we're attracting that interest is in the amount of money we're able to save some of our manufacturer clients that are trying to combat some things that insurance companies and PBMs are doing.

Jeff Baker
And I’d say that -- I’d also say the last thing is that we’re really the only company out there that you’re going to find is paying electronic claims via ACH or virtual debit card or paying claims via checks -- we’re a payments company, and that’s the value that we bring to our customers. We can pay those claims regardless, where historically, the industry has been mostly paper-based through checks and other means.

Jon Hickman
Okay. Thank you. Appreciate it.

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

Mark Newcomer
Thank you, Kevin, and thank you all for joining today’s call. Your continued support and interest inspire us to transform healthcare payments and improve patient access to essential treatments. We look forward to sharing more updates in the coming quarters. Have a great day, everyone. Thank you.

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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.

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