

POSaBIT Systems Corporation ([OTCQX:POSAF](https://www.otcmarkets.com/quote/POSAF)) Q1 2023 Earnings Conference Call
May 31, 2023 4:30 PM ET

Company Participants

James Carbonara - Investor Relations

Ryan Hamlin - Chief Executive Officer

Matthew Fowler - Chief Financial Officer

Operator

Good day, everyone and welcome to the POSaBIT Systems Corporation First Quarter 2023 Earnings Call. [Operator Instructions] It is now my pleasure to turn the floor over to your host, James Carbonara. Sir, the floor is yours.

James Carbonara

Thank you, operator. With me on this call are Ryan Hamlin, Chief Executive Officer; and Matthew Fowler, Chief Financial Officer. I would like to begin the call by reading the Safe Harbor statement. This statement is made pursuant to the Safe Harbor for forward-looking statements described in the Private Securities Litigation Reform Act of 1995. All statements made on this call with the exception of historical facts, maybe considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Although the company believes that expectations and assumptions reflected in these forward-looking statements are reasonable, it makes no assurances that such expectations will prove to have been correct. Actual results may differ materially from those expressed or implied in the forward-looking statements due to various risks and uncertainties.

For a discussion of such risks and uncertainties, which could cause actual results to differ from those expressed or implied in the forward-looking statements, please see risk factors detailed in the company's annual report and subsequent filed reports as well as in other reports that the company files from time to time with SEDAR. Any forward-looking statements included in this call are made only at the date of this call. We do not undertake any obligation to update or supplement any forward-looking statements to reflect subsequent knowledge, events or circumstances.

The company may also be citing adjusted EBITDA in today's discussion. Adjusted EBITDA is a non-IFRS measure used by management that does not have any prescribed meaning by IFRS and that may not be comparable to similar measures

presented by other companies. The company defines adjusted EBITDA as net income or loss generated for the period as reported before interest, taxes, depreciation and amortization. It's further adjusted to remove changes in fair value and expected credit losses, foreign exchange gains and/or losses and impairments. The company believes this is a useful metric to evaluate its core operating performance.

Now I would like to turn the call over to Ryan Hamlin, Chief Executive Officer. Ryan, please proceed.

Ryan Hamlin

Thank you, James, and welcome, everyone. As a reminder, all numbers that I'll be talking about today are in U.S. dollars. I know we just had our annual earnings call last month. So today's update will be relatively short. And essentially, we'll confirm what we stated on that call regarding our guidance and traction so far in 2023. But I do have a few other updates to share with you as well. But let's begin with our financial results.

We delivered solid results in the first quarter of 2023 that are in line with our expectations and reflect the typical first quarter seasonality of our business. For the quarter, revenue was \$11.5 million, up 82% year-over-year versus \$6.3 million in Q1 of last year. Transactional sales volume was also up at \$136 million, and gross profit was up 56% on a dollar basis from last year to \$2.3 million. Our year-over-year revenue growth continues to outpace our competition and the cannabis technology industry at large.

Our balance sheet remains strong with the most cash on hand at the end of Q1 than ever before, and we have the capital resources to execute on our plans for continued growth as we capture more and more market share. Across the market, many of our competitors are underperforming in the first quarter, as witnessed by several of the publicly traded companies in this space who have already reported their Q1 results. We suspect this is due in large part to seasonality of this industry and the overall state of the economy right now.

At POSaBIT, however, we remain in a solid position compared to many in the industry. Our first quarter numbers were right in line with our internal expectations, which relative to the industry still remain high. Looking ahead, we have already started to see the anticipated uptick in Q2 that we see each year coming out of the seasonality lows in Q1. The market is recovering, all of which points to continued growth as planned for POSaBIT in Q2 and beyond.

I'd like to now briefly give you an update on how our acquisition of Hypur is coming along. As you may recall, Chris Baker joined our team in the newly created role of Chief Strategic Officer, and Michael Sinnwell Jr. joined us as part of our acquisition of Hypur as our Chief Payments Officer. The acquisition established POSaBIT as the top payments provider in the cannabis industry. In terms of overall market share, and the number of providers and processors supported. Chris and Michael have worked together with our team to fully integrate the assets and team from Hypur with our existing POSaBIT infrastructure. I'm pleased to report that the integration is now complete, and we are up and running as one fully integrated entity.

Importantly, we are beginning to realize synergies and opportunities of cross-selling both customer bases. We have already sold several new PIN Debit deals on the Hypur platform and have been able to integrate the key components of the Hypur products into the POSaBIT suite of offerings. Our combined pipeline of Hypur and POSaBIT continues to be very robust with 175 to 200 deals in process that we expect will be sold and implemented over the remainder of the calendar year. I do want to take a moment and share some thoughts about the industry and the payments landscape as it stands today.

Unfortunately, the cannabis payments industry is full of non-compliant solutions that offer credit card processing and cashless ATM products. This has resulted in a lot of industry confusion over what is compliant and what is not. There are many merchants, unfortunately, who are using these non-compliant solutions and do not realize that the potential penalties they are susceptible to and could be fined hundreds of thousands of dollars and even shut down with their money being held. POSaBIT remains committed to being compliant and not putting our merchants in harm's way, unlike many of our competitors. It is unfortunate that the failure of safe banking and other federal measures have somehow created a false belief that is okay to process with non-compliant solutions.

This has resulted in a lot of misinformation and confusion by merchants when it comes to the best way to process payments in cannabis. Our team continues to spend time educating the industry and lawmakers about the dangers of these non-compliant solutions. However, the current poor economic climate has made it even more difficult for merchants to keep doing the right thing. While competition has increased, we continue to differentiate our business not only as one of the only compliant solutions in the market, but also having the best reporting reconciliation, customer support and scalable technology in the industry.

The strength of our product is one of the key drivers of our growth. We will continue to make this a focus for us to further differentiate POSaBIT from others in the market.

One example of our strong growth is here in the state of Washington. We are now currently serving nearly 40% of the dispensaries in the state with our POSaBIT run solutions, both our point of sale and our payments. With such a large presence in Washington, strong brand recognition and innovative products, we are building a wide moat around our business and making it much more difficult for new entrants to enter into the Washington market.

Lastly, we continue to invest in our customer support operations and customer success, a key differentiating factor for us and how well we treat our customers. This is still a very small industry when you look at the available TAM or total addressable market of just over 10,000 dispensaries in the U.S. which makes it critical that we ensure world-class support to our customers.

With that, I'll now turn the call over to Matt Fowler, our CFO, for a more detailed review of our financial results for the first quarter ending March 31, 2023.

Matthew Fowler

Thank you, Ryan. Transactional sales through our payments platform were \$136 million, up 33% compared with \$102.5 million in the first quarter of 2022. Looking quarter-over-quarter, transactional sales were down 5% compared with \$143.5 million in the fourth quarter of 2022, which highlights the typical seasonality of a slow Q1. Transactional sales is a non-IFRS measure and one of the key drivers for our business. Total revenue was \$11.5 million, up 82% compared to \$6.3 million in the first quarter of 2022. Of our total revenue, 93% is tied to our payments business and 70% is generated from our point-of-sale business.

Gross profit was \$2.3 million or 28% of revenue, up 56% on a dollar basis compared with \$1.5 million or 24% of revenue in the first quarter of 2022. The decrease in gross margin percent year-over-year is tied to a change in the products we offered in Q1 2022 versus Q1 2023. Operating expense was \$5.2 million compared to \$3.5 million in the prior year's quarter. The primary driver of the increase in operating expense was hiring that has taken place over the last 12 months and higher professional fees. Sequentially, operating expenses were up 3%, largely driven by higher professional fees and stock-based comp compared to Q4 2022. Administrative expenses for our primary people costs were \$3.3 million for the quarter. Stock-based compensation for the first quarter of 2023 was \$624,000 and there was a negative impact of foreign exchange valuation of \$257,000, both are non-cash expenses.

Net loss was \$3 million, inclusive of the impact of \$124,000 non-cash change in the fair value of derivative liabilities. This compares with a net loss of \$470,000 inclusive of the impact of \$1.64 million non-cash change in the fair value of derivative liabilities

in the first quarter of 2022. The mark-to-market of embedded derivative liabilities is tied to our convertible debt and is a non-cash accounting entry required by IFRS. It can cause significant differences in net income and loss quarter-to-quarter. Fluctuations to this line item of our income statement maybe more extreme during periods of increased volatility in the price of our company's stock.

Adjusted EBITDA was a loss of \$1.94 million or negative 17% of revenue compared to an adjusted EBITDA loss of \$1 million or negative 16% of revenue in the first quarter of 2022. Cash on hand at the end of the first quarter was \$7.3 million. This compares to \$3.1 million at the end of 2022. Our debt balance remains low at \$3 million of long-term debt, consistent with SBA loan convertible notes and a 3-year term loan. Finally, we do not have anything new to report about up-listing the company's stock to NASDAQ or the TSX. Other than to reiterate, a positioning company's investors can easily invest remains important to management and the Board, and we continue to discuss all options with the counsel.

With that, I will turn the call back to you, Ryan, for closing remarks.

Ryan Hamlin

Thanks Matt. I will end our call today by reiterating our guidance for 2023 and simply state that we are on track and growing as planned. For the full year 2023, we expect revenue of \$58.5 million to \$61.5 million and gross profit of \$12.5 million to \$14.5 million and to be slightly negative on an adjusted EBITDA basis. This represents a 62% increase in revenue year-over-year at the midpoint and a 35% increase in gross profit dollars year-over-year at the midpoint.

Thanks again everyone for your time. I will turn it over now to the operator for any calls that anyone may have.

Question- and- Answer Session

Operator

Ryan Hamlin

Thanks again everybody for the call today. I appreciate it. And if you have any follow-up calls or follow-up questions, you can certainly reach out to hello@posabit.com, and we would love to hear from you. Thank you. Have a good day.

Operator

Thank you everyone. That concludes today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.