Transcript of
POSaBIT Systems Corporation
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Participants

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Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation
Matthew Fowler - Chief Financial Officer, POSaBIT Systems Corporation

Analysts

Andrew Bond - Jefferies
Chris Bolster - Propel Advisors

Presentation

Operator

Good day, ladies and gentlemen and welcome to the POSaBIT Systems Corporation's Second Quarter 2022 Earnings Call. All participants have been placed on a listen-only mode and the floor will be open for your questions and comments after the presentation.

It is now my pleasure to turn the floor over to your host, James Carbonara. Sir, the floor is yours.

James Carbonara - Hayden IR

Thank you, operator and once again, welcome everybody to POSaBIT's Q2 earnings call. 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 may be 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 subsequently 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 as of the date of this call. We do not undertake any obligations to update or supplement any forward-looking statements to reflect subsequent knowledge, events, or circumstances.

The company may also be citing adjusted EBITDA on today's discussion, adjusted EBITDA as 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 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 - Chief Executive Officer, POSaBIT Systems Corporation

Thank you, James. And thanks, everyone for joining us this afternoon. We'll start with an overview of our second quarter financial results. As a reminder, all numbers that we're reporting today are in U.S. dollars. We're very pleased to announce our second quarter revenue increased 66% year-over-year, and 29% sequentially from Q1 to $8.2 million. The strength in our top line was driven by the addition of more than 100 new locations, a record number of dispensary point-of-sale installations, and increased transaction volume within our current merchant base.

As part of our Q1 earnings call, we reported that our revenue in March was the largest in corporate history. Since then, we have set a new record high in each subsequent month through July. The continued execution of our sales strategy was the key element to our strong revenue growth in second quarter, and sets us apart from our competitors. We exceeded the industry growth rate by a considerable margin, while others in the industry are reporting single-digit growth, or even in some cases a decline in sales.

The industry as a whole is starting to show signs of stabilization. Although the average order value has not rebounded from where it was last year, in fact, the average order value process using POSaBIT payments in Q2 was down from $78 last year to $73 or a 6.4% reduction from Q2 of last year, which is consistent within the industry. While this does affect the total gross volume of transactions processed, we are still seeing strong growth in actual number of transactions meaning the average order value is down but total transactions processed is up.

This trend is leading us to lower forecasted transactional sales. However, this is offset again by an increase in the number of transactions, which has enabled us to continue to grow our revenue at fast pace. To be clear, even with the lower order value, transactional sales still grew significantly in Q2 growing by 25% over our first quarter. We processed $129 million in Q2 versus $103 million in Q1. Given the dip in average order value, we are lowering the midpoint of our guidance for transactional sales from $700 million down to $650 million to reflect the current economic climate in the U.S.

But more importantly, we are reaffirming our guidance for revenue of $37 million to $40 million. We are also increasing the lower end of our guidance range for gross profits due to a mix shift towards more SaaS and point-of-sale revenue, which has much higher margins. I'll walk through the specific numbers in just a bit.

Now switching to some great news around partnerships. This week, we announced the largest partner deal in the history of our company. We closed a strategic partnership with a large cannabis technology partner to license our point-of-sale software. It is a software license agreement that provides royalty payments deposited for each unit sold by our technology partner, I want to point out a few additional and important points about this new strategic partnership. First, we've always believed in the strength of our point-of-sale software, we consider it the best in the industry.

The fact that a leading technology provider has licensed our source code validates the quality, scalability and complete feature set of our point-of-sale software. Second, this agreement represents a significant new stream of guaranteed reoccurring revenue over the next four years, and potentially well beyond that, there is a minimum of $20 million in guaranteed revenue that will be recognized on our P&L over the next four years.

As most of you know, we have doubled our revenue every year for the past four years. And we expect this year to be no different. Moving from $21 million in 2021 to our guidance of $37 million to $40 million in 2022. Personally, I love doubling revenue every year. And I want to keep that trend going. Deals like this set us up not only for a great year this year, but for many years to come. Third, software license deals that involve licensing source code are great for margins. All of the $20 million in revenue is straight profit. The company that is licensing our software will take on the full hosting support and implementation costs of running the point-of-sale.

This is only one example of how we are working to improve our gross margin to enable us to get to adjusted EBITDA profitability. We will begin recognizing revenue from this partnership in the third quarter of this year, the first full-year revenue of $4.4 million, which includes a one-time fee of $500,000 and first-year royalty licensing fees of $3.9 million was paid in advance and will be recognized on our P&L over the next 12 months.

The last comment I want to make about this deal. We've been saying now for the past several years that POSaBIT is the open platform for all cannabis technology companies to integrate with. This open integration approach sets us apart in the industry. And this specific partnership is a great proof point of the value our industry places on our point-of-sale and payments platform. This openness is a key competitive advantage and key driver of our growth for years to come. Now turning to our merchant store growth. We are further encouraged by the speed at which our teams are standing up operations in new retail locations.

You heard us speak about our target of 100 locations in 60 days. That is back in May we had more than 100 contracted retail locations queued up to go live over the following 60 days. We met that target and all those locations are now fully operational with our solutions. Earlier this month, we hit a significant milestone in our business. We now have more than 500 Merchant agreements in place for our payments and POS solutions. We have nearly doubled our market share for POS with more than 80 locations added so far in 2022, 36 of those in the second quarter alone, which is a record for POS installations for us.

As we have discussed in the past, another important element of our growth strategy is our focus on Multi State Operators or MSOs. Most recently, we began the deployment of our payment services for one of the most successful and largest privately held MSOs with operations in seven states and more than 60 locations. We expect to roll to all of those locations over the coming weeks. Our newly appointed Chief Revenue Officer, Julie Solomon is scaling our organization to increase brand awareness, achieve excellence with implementations and drive same-store sales growth from our existing base.

The team has more than doubled in size since Julie joined us in June. We now have more than 20 people in our sales and customer success organization. We have added direct sales professionals with industry and MSO experience in targeted geographic regions as well as marketing and implementation specialists. While competitors in our space are downsizing, we are investing in revenue generating resources and scaling up. The team is already signing up new business, growing the pipeline and reaching new geographic areas.

Collectively, they are elevating the customer experience driving growth and settings up to achieve our second half 2022 objectives and enter 2023 in a strong position. We expect to see tangible proof points in the quarters to come. During the second quarter, we also entered the New Mexico market with our point of sale solution. As the state went live with recreational sales for the first time. Our location count in New Mexico is in the low 20 with more locations under contract and expected to go live in the second half of this year.

With the addition of New Mexico, we are now operational in 19 states in the U.S., and well on our way to achieving our target of adding eight new states in 2022. We began the year in operations in 15 states. The addition of Georgia, New Mexico, Texas, and West Virginia brings us to 19. The recent agreement with a large MSO includes deployment in seven states, three of which are new for positive, leaving one more state remaining for -- to achieve our target for this year.

As we continue to scale, we're adding staff across our business to support our increasing volume of contracted locations, and projected sales pipeline. We currently have 50 professionals and plan to add 20 more full time resources across all departments by the end of the year. Our queue of contracted locations is close to 100 and our pipeline now exceeds 200 qualified prospects that are advancing through the sales cycle.

We handedly outperform both the year-over-year and sequential comps in the second quarter. But more importantly, recent contract signings and the opportunities in our pipeline reinforce our optimism for continued growth in 2022 and a return to profitability on an adjusted EBITDA basis in 2023.

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 quarter ending June 30, 2022.

Matt Fowler - Chief Financial Officer, POSaBIT Systems Corporation

Thank you, Ryan. Transactional sales for payment services totaled $129 million up 48% compared with $87.3 million in the second quarter of 2021. Transactional sales is a non-IFRS measure and one of the key drivers along with transactional volume for our business. Total revenue was $8.2 million, up 66% compared to $5 million in the second quarter of 2021.

As Ryan mentioned our growth during the second quarter rebounded following the industry wide slowdown we experienced in the prior two quarters, and far exceeded overall growth in the industry. New store payments in POS installations was a primary driver behind our increased revenue, specifically merchants using our PIN debit solution, which yields a higher amount of gross revenue on a per transaction basis than our other solutions.

Partnership with a leading cannabis technology partner became effective subsequent to the quarter, it had no impact on our second quarter results. Beginning next quarter, that partnership will have a pronounced impact on our results. Gross profit was $2 million or 24% of revenue up 49.1% on $1 basis, compared with $1.3 million or 27% of revenue in the second quarter of 2021. Sequentially gross profit on $1 basis was up 28.5% compared to Q1 2022.

Operating expense was $6 million compared to $1.1 million in the prior year's quarter. The primary driver of the increase in operating expense was the impact of a $2.7 million non-cash change in foreign exchange. This is principally the result of the large balances on the balance sheet being converted from $18 million to U.S. dollar. The other driver of the increase in operating expenses administrative expense of $2 million. This is largely made up of people expenses tied to our growing team.

To a lesser extent, we also had higher professional fees of $564,000 compared to $208,000 in the prior year quarter. This was mainly driven by increased legal fees tied to our recently announced technology partnership and legal expense tied to our recently closed private placement. Additionally, we had 512,000 in non-cash expense from share-based compensation compared to a $140,000 in the prior year quarter.

Net income was $380,000 inclusive of the positive impact of a $4.7 million non-cash change in fair value derivative liabilities. This compared with a net loss of $878,000 inclusive of negative impact of a $1 million non-cash change in fair value of derivative liabilities in the second quarter of 2021. The mark-to-market embedded derivative liabilities is tied to our convertible debt with non-cash accounting entry required by IFRS. It can cause significant differences in net income or loss quarter-to-quarter.

Fluctuations in this line item of our income statement may be more extreme during periods of increased volatility in the price of the company stock. Adjusted EBITDA loss was $660,696 or negative 8% of revenue compared to the positive adjusted EBITDA $207,000 or 4.2% of revenue in the second quarter of 2021. Cash on hand at the end of the second quarter was $1.7 million. This compared to $4.3 million at the end of 2021.

The June 30 cash balance does not include $4.4 million received in August 2022 as part of the 20 million technology licensing agreement in the 3.5 million net proceeds from the private placement, which was held in trust at the end of the period. Risk factor in both those items our cash position is the best it has been in company's history.

During the quarter cash was used primarily for working capital needs and to purchase equipment, which is either sold or rented to our merchants. Our debt balanced remains low with $199,000 of long-term debt, comprised of an SBA loan in convertible notes.

Subsequent to the quarter end, we completed the private placement with the existing institutional shareholders the net debt approximately 4 million in proceeds to operate consisted of 5,861,941 units of the company at a premium to market price pursuant to the offering. 4,500,000 units were issued to existing investors of the company who concurred with the closing of the offering exercise 600,063 previously issued common share purchase warrants. Anticipation by existing shareholders demonstrates their confidence in us and our business.

Let me add one final thought. We do not have anything new to report that uplisting the company stock to NASDAQ, or another market for trading securities other than to reiterate the position in the company that investors can easily invest remains important to management in the board. We're also monitoring other legislative developments, including safe banking plus. It is still too early to know that the latest iteration gain momentum to pass through the house incentive in next 12 months. Based on the history of this legislation it is unlikely any action will be taken before the midterm elections in November, but we remain hopeful.

That's it for me right now. I hit it back to you for closing remarks.

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Thanks, Matt. As we end our call today, I want to provide the following guidance for full-year 2022. As I mentioned already, we are lowering our guidance for transactional sales volume-based on current economic condition and the lowering of our average order value. We now expect our transactional sales volume to be between $600 million and $700 million, which compared to our previous guidance of $675 million to $730 million.

Fortunately, our business is less influenced by the overall total dollars process. And more so by the number of transaction process. As we increase installation of our PIN debit solution, the impact to our revenue from the decline transactional sales per order is offset by the increase in the number of transactions.

Furthermore, with more than a 100 additional store locations set to go live plans to expand to new state, a dedicated team focused solely on organic growth and guaranteed revenue from a new license agreement we are reiterating our full-year guidance for revenue, as well as increasing the lower end of the range for gross profit. We now expect revenue of $37 million to $40 million, which reflects year-over-year growth of 81% at the midpoint and continues our trend of doubling or nearly doubling our revenues for five consecutive years, and gross profit of $9.5 million to $10 million an increase from the $9 million at the low end of previous guidance, which reflects year-over-year growth of 69% at the midpoint.

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Also, as already mentioned, we are announcing that we plan to return to positive adjusted EBITDA in 2023. This is both a signal of our increased focus on gross margin and our confidence and strong revenue growth, while optimizing our overall costs. Lastly, we continue to focus not only on 2022, but are already looking beyond to 2023 and have started to put in place new revenue drivers so we can continue our strong trend of doubling our revenue every year. The new $20 million guaranteed revenue partnership is just one example of this and our commitment to our investors to maintain our high growth rates, while also planning our adjusted EBITDA profitability in 2023.

I will end today's call by providing a bit of evidence on how we have already planned for our growth to hit our revenue guidance I just shared with you. As you can see, we grew about $2 million in new revenue between Q1 and Q2. This was during a time when the industry as a whole was significantly down.

If you look at what we need to accomplish in the second half, and realize our exit run rate velocity in July was about $36 million It allows us to see a clear path to hitting our guide. The new revenue from the licensed deal should be viewed as both a bit of insurance in case the current cannabis climate takes another significant drop, or it can be viewed as potential upside in our forecast. I will end by reiterating that if you look at our past several years since going public in 2019, we have a good track record of hitting our guidance.

Operator, you can now open up the call for any questions.

Operator

Absolutely, thank you. [Operator Instructions] And up first we have Andrew Bond with Jefferies. Your line is live.

Q: Hi, good afternoon, everyone. This is Andrew Bond in the line of Owen Bennett. Thank you, Ryan, Matt, for taking our questions and congrats on the results and recently announced agreements.

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Thanks, Andrew, good to talk to you.

Q: Sure. Good to speak with you, Ryan. So on the first question, on the recently signed software agreement, understanding there's limited disclosure around this right now and details are to come in due course, can you just talk about the pipeline or your strategy around additional licensing transactions such as this?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Yes, good question. I talked about this. And I mentioned it earlier today. But for the last several quarters, we've talked about our open platform, and this is something that really differentiates us than others in this technology space. I mean, we believe strongly in our point-of-sale software, we believe equally strong in our payment software. And we've always been an open provider. And this being the first large provider to adopt our POS, just a strong statement of, the support of people looking at our code, understanding that it's scalable, understanding that it has a great feature set.

And we anticipate others in the industry to follow suit. So yes, this is definitely in line with our growth strategy as we go into 2023 to have more and more partners license, both our payments platform, but also our point-of-sale platform.

Q: Got it. Helpful detail. Thank you. And then moving to your customer base with regards to the larger Multi State Operators, encouraging to see that transaction, what do you think POSaBIT needs to do? Or what is the company already implementing strategically to win more of these enterprise type clients?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Yes, I think we look at it in two different ways. One, our payments business obviously is the best-in-class in the industry. And it scales wonderfully across multi MSOs, Multi State Operators. And so that is already kind of a testament to that platform. I think when we look at our point-of-sale platform, there's others that have been in this industry a little bit longer than us. And so it's no secret that in some ways, we have to increase our feature set as it relates to large MSOs.

And it's been something, we've been doing now for probably the last six to nine months, as we started to put out more and more releases of our POS, really looking at what it takes to be a world class operator for those MSOs. And we're starting to get now for the first time several multi location operators that are using our point-of-sale. And I think that's just it's going to be, it's going to continue to be a focus for us because we want to be able to support the largest of all of the MSOs. And I think that's just something that's on our roadmap, and you'll hear more about it each quarter as we release more and more features targeted at that.

Q: Got it, great. And just if I could sneak in a quick housekeeping item, I wanted to make sure I was clear on what you said regarding your new MSO client. I think I heard you say that the newly signed client had more than 60 locations in the U.S. across seven states. Was that correct?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

That is correct.

Q: Okay, great. Thanks. I'll pass it on. Congrats again on the quarter.

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Thanks, Andrew.

Operator

Okay, next we have James [indiscernible], a Private Investor. James, your line is live.

Q: Hey Ryan, Matt, thanks for having me on taking the question. It's like you knew that I was going to ask that you've made in your closing remarks about how to bridge guidance versus everything you talked about. So really appreciate that. But if you can just talk more about what you're factoring into guidance, and you are run rating at the low end right now without layering in the recently signed deal, but then I think you've said in the remarks, you took down TPV. So I guess what's being assumed for the rest of the year, if you could give more granularity on that?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Yes, so I think to just kind of go through the math, I mean, if you look at what we did in Q1 and Q2, it's a little over $14.5 million. So you do the math on the midpoint of our guidance that says, hey, we got to hit midpoint of 38.5, let's just target midpoint, that's $24 million. So if we exited the second quarter at a run rate of 36, do simple math on that $3 million times six, that's an $18 million that's in the bag. So with literally no additional adds as far as new merchants in the next six months, that gets us to $32.5 million, close to $33 million. So, how do we get from that $33 million in essence call it $40 million, because that is our highest of our midpoint.

So how do we get an incremental $7 million. And that's really why I wanted to stress the importance of our pipeline, the fact that we have 100 contracted merchants, the fact that we have over 200 in the pipeline, the fact that we just landed an MSO, with over 60 locations, all of which have not come online yet. Those are just proof points of that line of sight to say okay, to get from $33 million to $40 million, that $7 million is not a hard leap, to go from where we already see that's in the bag, and what we have coming in the pipeline. And then that's why I kind of said, when we look at this large partnership deal that we license for $20 million, that revenue, I look at it, like I said, I look at as hey, that's great to have, that's kind of insurance money, I guess, if you want to think of it as far as if the conditions one way or another turn, or it's even upside above, what we've already guided to.

So that's a little bit of the kind of the math and the thinking behind it. And it doesn't, that doesn't really account for a lot of the same-store growth too, because now that we have Julie's team, and the customer success organization fully built out, they're completely gold on same-store growth. So now you're going to have some organic growth layered on top of all the new stores that we're adding as well. And we are seeing the industry stabilize. So we actually anticipate that, that transactional sales, or that average ticket size or order value will start to go back up where we had originally baselined it last year in 78, it's gone down $5 or $6. So hopefully that answered that James. That's just kind of how we're thinking and seeing kind of down the road and how we get to that that $40 million.

Q: Yes, really, really helpful and really encouraging, I'd say overly conservative, but I appreciate you guys being prudent. But that's on the TPV piece. How do I think about that, I must have missed that came down on your guidance?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

On the sales, yes, total transactional sales. So the way I think about that is, so we have this metric, because we would always, we would say, hey, you can kind of factor in roughly 5.5% of our total transaction sales, process, revenue. When we saw the dip in the ticket, that means our transactional sales were going down. But what we did see is that customers that were repeat customers are coming into our stores, where we would have maybe 30% of the volume of those transactions, we now are starting to see 35% to 40%. So we make revenue, both on the value of the ticket, but we also make it on just the number -- how many tickets happen.

So a $10 transaction versus a $7 transaction, I still make the full amount on the trend, the individual transaction, I don't make as much on the percent of the amount. But that's why, when we looked at it, we said, okay, we're getting offset, transactional sales went down a little bit, we want to be smart on how we give guidance there, we lowered if you look at the midpoint, we just lowered it by $50 million from 675, 675 to 730 we went to 600 to 700, 700 on the high end. So we just felt like it was prudent to lower the transactional volume net top line net.

But we feel great on the optimism. And you saw that in the difference between Q1 and Q2, I mean, we grew 25% in Q1 and Q2 in transactional sales. So it's not like we're declining, but we grew pretty quickly in Q1 to Q2. But as we talked about in Q1, Q1 is a tough quarter all around for the industry. And so we're just having a little bit of that hangover as we come out of that, that transactional sales number.

Q: Great, okay. That makes sense. I think this is more than usual prudence that I get that. Okay, one other one, just so it's great. Again, the partnership is really to see as an asset. But you talked about the recurring revenue just from licensing the platform, will assuming they sell your payment solution, is that revenue reasonably incremental that you'll be generating?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Yes, and that's all upside to. So we haven't factored that into the forecast this year. Obviously, as we go into next year, we'll factor that in. So that's potential upside.

Q: Got it. So I guess that's how you doubled revenue in '23 then?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Did I say that, James. I might have hinted to that.

Q: Thanks so much, guys. Appreciate the time.

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Yes, thanks, James. Good talking to you.

Operator

Okay. The next question is coming from David [indiscernible], Private Investor. David, your line is live.

Q: Hey, Ryan and team, congratulations on the quarter. I have two questions. The first one is, it looks like the company moves -- it looks like it moved nicely through your pipeline, which I think it was previously around 300 stores. And now it's down to one. I thought you said 100 earlier in the call. But on this last Q&A, it sounds like you said 200, but whatever that number is, can you talk a little bit about whether the change was due to the large MSL coming online? And also, how do you think about continuously replenishing that pipeline? And where would you like to see that number consistently being? Because it's an obviously a balance between refilling it and then closing on dispensaries as you move through it?

<u>Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation</u>

Yes, no. Good question. And just to clarify the number. So it's 100, what we said is we have a 100 contracts that are getting implemented. And then we have another 200 that are in the sales pipeline. I think last time on the phone, we talked about the same thing about 100. And then at the time, I said the pipeline looks strong about 300. So what's -- the key number is what is contracted or getting implemented, right, because that's the ones that, in essence, are in the bank. So were in Q1, we said, we had those 100, we said, we're going to implement in the next 60 days, we obviously did that.

I just said on this call, we've got another 100 queued up ready to roll, those are going to get implemented this quarter. So were I look at a healthy pipeline is, I want to have always a 100 ready to go in essence, and then have a strong pipeline behind that, that's going to just keep feeding those. So certainly, the addition of this large MSO really helps our pipeline, because that's 60 locations. And there's, that's certainly a focus for us, because we want to keep going after those MSOs, because it's nice to grab them in large bunches.

But we're making good traction. I mentioned New Mexico as a new state that came online in April, we're getting a lot of new merchants there. And we're starting to hit -- get merchants for the merchants on the East Coast, a place that we hadn't been as strong in quarters past. So we're starting to really get a nice spread of new merchants coming on not just West Coast base, but really across the U.S.

Q: Got it. Super helpful. Thanks for answering that. And then one more question, actually, I guess, on the MSOs, that just came to mind. Are those MSOs rapidly growing still? Or they have they some of them slow down? Because I would think obviously, once you get those MSOs under your belt, and they bring on new stores and get them settled that they're going to continue to sort of roll them over to POS solutions? Is that correct?

<u>Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation</u>

Yes, in fact, that's a great example of an MSO that we have, under contract that we've had now for a while over a year. They just made a small acquisition added, I think, eight to 10 new stores. And immediately those, immediately came over to us, which is a great way for us to continue to expand our base as well. So when those MSOs pick up, the ones and twos these are, five or 10 store blocks, then we get a capture that and that's part of our same store growth. In some ways its same store growth, because it's coming from that franchise of that MSO. But in other ways, they're obviously new locations too.

Q: Okay, fantastic. And then my second question was, there's been a lot of carnage, obviously, in the cannabis space. You guys have a little bit of cash on the balance sheet. Now it strength the numbers? Are there acquisition opportunities out there?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Yes, I mean, I've been answering this question a lot lately of, I don't. It's always tough in these tough times. It creates opportunities for companies that have well thought out business plans and have a track record of execution. And fortunately, I think investors can look at positive and they can see that. And so it does put us in a preferable position right now, as a lot of these other distressed companies, who may have raised money at a time when money was a little easier to come. And people were investing in companies based on ideas, and not necessarily P&Ls.

And yes, so definitely, it's -- it is something we are evaluating strongly as being one of the strongest players now in the space. And I think it'd be foolish for us not to look opportunistically at some of the other companies that are out there that are struggling right now.

Q: Aren't we -- just one last question. Are some of those distressed companies where you're buying less of the technology and more just the customer base? Or would you mostly be focused on buying technology that's creative and additive to what POSaBIT data?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Good. It's a mix, I'd say a both I mean, technology where we need to fill on some gaps. I mean, as I already hinted to earlier on about, making sure we can support large scale MSOs and filling the gap in some of the seed to sale side of it on the cultivation and growth side, but then equally valuable to us is just straight distribution, because we have a very powerful payments engine, that once we can get merchants to adopt that payments platform, it generates high volumes of revenue. So we look opportunistic distribution of grabbing a bunch of locations, but then also what is the technology play to fill on the gaps.

Q: Yes, okay, makes sense. Great. Thanks again. Congrats on the quarter. And I appreciate it.

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Cool. Thanks, David.

Operator

Okay. We're able to take one more question from Chris Bolster with Propel Advisors. Chris, your line is live.

Q: Thanks. Congratulations on the licensing. Yes, sorry. Looks like we have a little bit of a bit delay. Congratulations on the licensing deal. Presumably, you guys structured that with some kind of significant volume discount, and you get a chunk of revenue without the sales effort, but you give up some margin. And it caps your revenue on the back end, if they exercise that buyout. Is that a fair assessment?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

No, actually, this is a straight source code licensing deal. So it's actually 100% margin. So I did a handful lease in my days at Microsoft as well, where it's the licensing of the source code to a third-party, in this case, our technology provider. And they then take that source code, they sell it, they support it, they handle all support costs and ongoing maintenance. And we simply get a royalty payment per unit. So very common kind of royalty agreement. So for us, it's great, because that 20 million is 100% margin, and we'll go straight to the bottom line.

Q: Okay. Is there any kind of channel conflict involved here? Could they approach some of the same accounts and create some confusion?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Yes, absolutely. And I think that channel will have that part of our POS. We will continue to sell our POS I think I'll say two things. One is, I think this industry is great for pushing innovation. And I think having a little competition drives great innovation that rewards our merchants and having a better product. The other example I would give is, and again, sorry to draw my Microsoft days, but I was there when Microsoft licensed the Office product to the Mac.

And Apple was a fierce competitor to Microsoft, but Microsoft recognized the value of having office run on that platform. And guess what, they've made billions and billions of dollars in royalties off of that Office platform being sold by their number one competitor. And so in some ways, we just expanded, people can choose to use our POS and we make money if they opt and use our partners POS. We still make money, because we make that royalty. So for us, it's a win-win. And it's a great way to, frankly, just have more of RPOs in the market.

Q: Yes, you've talked in the past about a goal to be a top three player in terms of market share. And does this get you close to that in some reasonable timeframe. If I remember correctly, dutchy was number one with about a quarter of the market and the number three player going back about a year was flow of with roughly half of dutchy share, but those numbers might have shifted since?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Yes, I mean, I don't have the exact numbers in front of me now. But you're just to answer your question. I mean, certainly, that is our goal still to be, a top point of sale provider. A deal like this certainly helps. Because that is, in essence, an extension of our POS and source code. So that's great. And we'll continue to aggressively promote our POS in new markets and grab share that way as well. So now our goal is clearly to be, the top three, hopefully even better than that in the POS space and continue to maintain our number one leadership position in our payments platform.

Q: Okay, thank you. Just one last clarification that something that I think I heard a moment ago, this licensing deal is for the POS software. And then presumably, if it's implemented, let's say an MSO implements this technology partner solution and as using your software, there are ancillary revenue opportunities, whether payment processing or other ones that could still flow to you in addition to the licensing revenue?

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Yes, and I would say that the relationship we have with this technology partner and we're on -- by the way, we're honoring our NDA and our confidentiality with them. But, they're a great partner, and we have a wonderful working relationship and as our company grows, and is there company grows, there's certainly more opportunities and our payment platform is kind of the most obvious one that we want it to continue to promote in the industry as an open platform. And if they go and they sell that, along with that suite or if others in the industry want to be a provider and stellar payments platform, we're open to that as well.

So yes, I mean, the long answer to question is, as they expand out into the market it's going to create more opportunities for us to generate more revenue opportunities, working with them and others in the industry.

Q: Okay, great. Well, thanks very much for taking my questions, and congratulations on the quarter.

Ryan Hamlin - Chief Executive Officer, POSaBIT Systems Corporation

Thank you so much, Chris. Nice to meet you.

Operator

Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.