POSaBIT Systems Corporation (POSAF) CEO Ryan Hamlin on Q1 2022 Results Earnings Call Transcript

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POSaBIT Systems Corporation (OTCQB:POSAF) Q1 2022 Earnings Conference Call May 26, 2022 4:30 PM ET

Company Participants

James Carbonara - Hayden IR

Ryan Hamlin - Co-Founder and CEO

Matt Fowler - CFO

Conference Call Participants

Tom Carrol - Stansberry Research

Operator

Good day, ladies and gentlemen and welcome to the POSaBIT Systems Corporation First 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.

I would now like to hand the call over to James Carbonara, Investor Relations at POSaBIT. James, please go ahead.

James Carbonara

Thank you and once again, welcome. 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 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 as of 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

Thanks James and thanks everyone for joining the call today. We have a few prepared remarks and then we'll open up at the end for some questions.

Before I jump into our Q1 results, I want to reiterate a few key points we share just a few weeks ago in our special Q&A session we held on May 3rd, which I'm hoping many of you attended online.

As you remember, during the Q&A call, we discussed that we had more than 100 contracted retail locations queued up to go live over the next 60 days. Since that time, we have already on boarded nearly half of those contracted locations. They are now fully operational and represent an estimated $50 million in annual transactional sales volume.

By the end of Q2, we expect to stand up the remainder of those 100-plus retail locations. We are well on our way to achieving our commitment of 100 locations live in 60 day.

Just as important since early May, we have increased our funnel of new contracted stores by approximately 20% adding nearly 30 additional store locations that we expect to go live over the next 75 days, further increasing our visibility on revenue and reinforcing our confidence in our 2022 guidance.

Now, turning our attention to an overview of our first quarter financial results. As a reminder, all numbers that were reporting today are in U.S. dollars. During the first quarter, we continue to onboard new merchants focusing on high volume stores and MSO locations. First quarter revenue was $6.4 million, up 79% year-over-year and essentially flat on a sequential basis. Our transactional sales volumes increased 61% to $103 million year-over-year and decreased 3% sequentially compared to the fourth quarter of 2021.

Sequential trends over the last two quarters have been the primary drivers and there are two key factors. First, industry-wide headwinds impacted transactional sales volumes beginning in the third quarter of last year and continued through most of the first quarter of this year.

Lower demand and lower average order sizes led to an overall decline across the industry. We speculate that this was due to both the loss of government subsidized checks as well as a significant reduction in cannabis consumption industry-wide. So, the market dynamics are clearly one factor in the current slowdown.

However, beginning with the month of March, pricing began to stabilize and many MSOs reported that demand is coming back. In fact, we saw evidence of this in our own transactional sales volume. We began accelerating again toward the end of first quarter. Our March volume increased more than 20% compared to February, representing the largest volume month in our corporate history. And as we headed into second quarter, April outperformed March in terms of transactional volume in revenue.

The second key variable for us in Q1 and not surprising is that our revenue growth has become more of a stair step function and some would say even lumpy, giving our focus -- given our focus on high volume episodes where we tend to onboard in clusters, which generally takes longer to onboard than single store operators.

We are encouraged by the improving market conditions and the speed at which our teams are standing up new retail locations. We are on pace to install more than 50 new payments and POS stores in May, and even more in June.

As of today, we have grown our store count to more than 450 stores that use our payments and our POS and our sales pipeline is as healthy as it's ever been. The cadence of our installations coupled with anticipated growth at existing stores and our pipeline of new business opportunities reinforces our optimism for another year of exponential growth in 2022.

Before I turn it over to Matt to give a detailed report of our Q1 financials, I want to share some exciting news that we reported on this morning. We have expanded our leadership team with appointment of Julie Solomon to the role of Chief Revenue Officer. Julie has more than 25 years of experience in the FinTech space. She comes to us from Synctera, a leading FinTech banking provider.

Julie has worked in a number of sales and executive leadership roles during her accomplished career and has had great success leading teams to high growth. With Julie coming on board, we are now consolidating our sales, marketing, and customer support teams all into one organization under her leadership. This move strategically unifies our customer-facing resources, and supports a single go-to-market strategy with one voice messaging to help fuel the next phase of our growth. I know Julie is listening on the call today. So, I just want to say hello to her and let her know how excited we are for her to start in June.

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 March 31st, 2022.

Matt Fowler

Thank you, Ryan. Our financial results for the quarter again include year-over-year topline growth along with reinvestment back into our business to long-term benefit of our shareholders.

Transactional sales for payments services totaled $103 million up 61% compared with $64 million in the first quarter of 2021. Transactional sales which is a non-IFRS measure, the primary underlying driver for our payments business and more specifically, our revenue.

Total revenue was $6.4 million, up 79% compared to $3.5 million in the first quarter of 2021. As Ryan mentioned and discussed during the May 3rd, 2022 investor conference call, industry-wide headwinds impacted consumer demand average order values in overall transactional sales volumes in Q1 2022.

We saw this began in late Q3 2021 and continue through the first two months of Q1 2022 with volumes rebounding to expected levels in March 2022. Revenue was also impacted by extended underwriting times associated with new clients adopting the company's PIN debit payment solution.

The underwriting time for PIN debit merchants takes longer than the company's other peered services due to its more rigorous underwriting standards. Additionally, large enterprise size merchants can take even longer because they often have complex corporate structures. As a result, despite signing up many new merchants, our Q1 2022 revenue was impacted coming in generally flat relative to Q4 2021.

Gross profit was $1.5 million or 24% of revenue, up 69% on a dollar basis compared with $900,000 or 25.4% of revenue in the first quarter of 2021. Sequentially gross profit on a dollar basis was up 3% or $44,000 compared to Q4 2021.

Operating expenses were $3.69 million compared to $1.1 million in the prior year quarter. The primary driver of the increase in operating expense was employee costs. This was made up of cash expense tied to wages and benefits and stock comp expense, which is a non-cash expense. To a lesser extent, the increase was a result of increased professional fees tied to legal and our year-end audit.

Net loss was $470,000, inclusive of the $1.6 million non-cash change in fair value derivative liabilities. This compared with the net loss of $514,000 inclusive of a $322,000 non-cash change in fair value and derivative liabilities in the first quarter of 2021.

The mark-to-market of embedded derivative liabilities related to our convertible debt is a 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 a company stock.

Adjusted EBITDA loss was $1 million or negative 16% of revenue compared with positive adjusted EBITDA of $101,000 or 3% of revenue in the first quarter of 2021. Cash on hand at the end of the first quarter was $3.2 million compared to $4.3 million at the end of 2021. Cash was used in the quarter primarily for working capital needs and to purchase equipment, which is either sold or rented to our merchants. Our debt balance remains low with just over $160,000 long-term debt comprised of an SBA loan in convertible notes.

Let me just add one final thought. We do not have anything new to report about uplisting the company stock to NASDAQ, or another market for trading securities. Other than to reiterate, the positioning of the company so that investors are easily able to invest remains important to management and the Board.

That's it from me Ryan, I'll hand it back to you for closing remarks.

Ryan Hamlin

Thanks Matt. I want to end today's call by reiterating our 2020 guidance and express our confidence in hitting these numbers. 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 revenue for five consecutive years. Transactional sales volume of $675 million to $730 million and gross profit of $9 million to $10 million, reflecting year-over-year growth of 64% at the midpoint.

In closing, we continue to make tremendous progress operationally to add new merchants every week. We are seeing the cannabis market start to show signs of a full rebound as we exited Q1, which is great for both same-store growth and new store volume.

We have the largest backlog of contracted locations in the history of the company and a very robust pipeline of new business opportunities in the mix. We are very encouraged by what we are already seeing in Q2 for our business and confident that we will deliver another year of exponential growth.

Operator, we can now open up the call for questions.

Question-and-Answer Session

Operator

Certainly. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions]

First question is coming from Tom Carrol. Tom is calling from Stansberry Research. Tom, please go ahead.

Tom Carrol

Hey, guys, good evening. Not many questions for me. Want to ask about transactional sales. You said March was great month, up 20% over February. I wonder if you could quantify what April was up over March? Similar?

Ryan Hamlin

Yes. Looking at Matt right now and just to get an exact number, I don't think we give -- share an exact number right now, Tom, other than to say that April was definitely a stronger month in March. And we're seeing the same exact thing now in May again.

Tom Carrol

Great. That was my follow-up. How is May looking? But that's good, you answered already. Thank you for that. And then I did want to ask about the NASDAQ uplisting. I know you just you mentioned it, but maybe remind us about kind of what you're doing here. What are the next steps? And could you put some timing around it at all? I know it's hard to do that, but maybe give us a sense of what you guys are doing internally and what your timing expectations are?

Ryan Hamlin

No, it's good question Tom. And part of it is we're a different kind of a company because we're in the cannabis space and we also do payments. So, it's a very unique situation when you take a company like ours and you go to NASDAQ to get uplisted. So, there's a whole different set of requirements and frankly, while it's federally illegal here in the United States and there's a lot of unknowns around, whether safe banking will include this language or not, they've been a bit hesitant to really kind of move confidently toward allowing us to do it.

So, we've engaged, we've had multiple conversations, we continue to do so. But in the meantime, we have to kind of wait to see how it plays out. And we think the combination of Safe Banking and of course, legalization changes it and makes it almost immediate for us to be able to do so.

We are looking at other exchanges as well, right. And so, today we're traded on the CSC and on the OTC market. Our goal -- and believe me, I hear from our investors a lot is, we want to make it really easy to buy and sell our shares. And you just look at the trading volumes and I would love to open it up to create a lot more volumes on a daily basis.

So, it is a high priority for us. It's in our Board discussions every time the Board gets together and we'll continue to push as hard as we possibly can.

Tom Carrol

So, who's got the next step, though? Are you in a kind of back and forth discussion with the exchange right now? Or are we just kind of in a holding pattern not knowing what's going to happen next?

Ryan Hamlin

Yes. It was in a back and forth for quite a bit and some of the earlier conversations we had -- we shared publicly is that we were actively engaged. I would say right now we're at a bit of a standstill, because we're waiting, basically forgotten on the asset to come back. And we're looking for some other companies that are similar to us that are also looking at the same path. So, we're trying to get some synergies of a couple of the companies kind of working this at once, but I would say it's a bit of a stalemate at this point and if anything, the balls in next court.

Tom Carrol

All right. Great. That's it for me.

Ryan Hamlin

Thanks Tom.

Operator

Thank you. And the next question is coming from Gary Rye [ph]. Gary is a private investor. Gary, your line of live?

Unidentified Analyst

All right. How are you?

Ryan Hamlin

Good.

Unidentified Analyst

Good. Just a couple of questions. In terms of just the guidance that you've provided, it seems pretty significantly backend loaded? You'd probably have to onboard quite a few more -- quite a few more units? Is that a fair assessment? Or is it -- you get a pretty good line of sight to it with what you've already got sort of on under agreement?

Ryan Hamlin

Yes, we have a pretty good line of sight and I would -- I guess I'd reiterate the point I said, around kind of stairstep growth, I mean, you're going to see that and it's why on that May 3rd call, we expressed that we had 100 locations that we are going to onboard over 60 days. And we've already done half of those, we expect the rest of them to be done by the end of this month.

So, we are very close to be able to kind of confirm that -- yes, those are now in and we have another 100 plus in the pipeline. So, I think between getting those on board what we already see in our pipeline that have -- in essence they are contracted merchants, we're waiting for them to get through underwriting. So, it's not that the merchants is waiting to make a decision, they've made the decision. It's just a matter of us getting them through the underwriting process.

And I think the third -- the thing that we feel confident about is we're engaged with several large MSOs that -- and those are more difficult and lengthy conversations, and we're very optimistic that those will come to fruition here shortly.

And not only we'll be able to announce those, but we'll be able to onboard them as well. So, yes, we would have adjusted guidance and we felt like we weren't going to be able to accomplish that. And we feel still -- we still feel very confident in that $37 million to $40 million guidance we gave.

Unidentified Analyst

Got it. So, the long story short is the pipeline looks pretty good.

Ryan Hamlin

Yes, pipeline looks good.

Unidentified Analyst

Got it. And there's been a lot of carnage in the sort of the early stage, VC type companies and VC land [ph]. I know that you guys are sort of -- were or maybe still are I'm not sure in the hot space for some of the VC money. Are you seeing -- and are you aware of like, I assume that you've attracted a lot of -- the space is attracting a lot of people with I'm going to call them sort of stepbrothers business plans.

And is there opportunity for you guys, as some of the VC money backs out to either get some clients on the cheap or anything like that is that going on, not going on? I don't know if there's any color?

Ryan Hamlin

Yes, I mean, obviously, we all know what the market is been up to the last couple months. And so when market conditions go south, you always see companies that aren't properly funded and/or have the right operational structure and strategy in place, start to struggle. And one of the benefits of our business is we've, in essence, self-funded from day one. I mean, we've only raised $8 million of capital and have been able to run the company for seven years. And you see our valuation of whatever it is these days, $150 million.

So, we have been wise with our capital and have executed on our strategy. And so long story short, I guess your question is, yes, we are seeing others in the industry, that, when capital was a little bit more free flowing, maybe didn't -- weren't as wise stewards of the money. And so there -- I think there will be some definite opportunities for us as this industry continues to consolidate and there will be a handful of leaders, three to four emerge. And we feel strongly that will be in that list.

Unidentified Analyst

Got it. And with respect to your new hire, what are some of the things she's going to be charged with doing? Is it building out a robust salesforce pipeline, I mean, like, the pipeline sounds like pretty good. So--

Ryan Hamlin

Yes, the biggest -- yes, no, I'll give you some more color. Yes, biggest thing is, we -- Jon Baugher, who has been running our sales team has done a fantastic job and has built up our funnel. And obviously, a lot of credit is due to Jon and his ability to kind of get us to where we are today.

I think the biggest thing with Julie coming on, and I referenced we're bringing organizations together. Currently, our sales marketing, customer support organizations are not under one leader and we felt it was prudent to bring them under one and so we can have one consistent voice, customer-facing, and drive one strategy across sales, support, and marketing. So, a big part of Julie's role is going to be establishing that kind of unified organization, unified voice. Yes, the pipeline is strong and we expect that she'll continue to do that.

The other great thing is we're growing. And Julie brings in a great network of people and we're going to continue to staff-up our teams and, and looking at her background and her experience in the FinTech space is very helpful for us as being the leading payments provider in this cannabis space. So, excited to bring her board and she's been a CRO in other companies and brings that wealth of knowledge over.

Unidentified Analyst

I'll let somebody else ask questions. Thanks a lot. And I hear you'll be in New York next week, so maybe [indiscernible].

Ryan Hamlin

Yes, I will. Come find me here and we'll talk.

Unidentified Analyst

All right. Thanks, guys. Take care.

Ryan Hamlin

Thank you.

Operator

Thank you. [Operator Instructions]

The next question is coming from James [indiscernible], who is a private investor. James, your line is live.

Unidentified Analyst

Hey Ryan, how you doing?

Ryan Hamlin

Good, James, how are you?

Unidentified Analyst

Doing very well, thanks. Appreciate the incremental metrics you guys are disclosing and for some prepared remarks, I think that's really good improvement. I just want to clarify one thing. So, did I hear that correctly that April was a larger month than March and then May was even larger than April, was that correct?

Ryan Hamlin

That is correct, James.

Unidentified Analyst

Cool. Okay. Thanks. And then the other question is if you can just -- so I guess what else needs to go right for you guys to achieve your guidance for this year? Because those -- prior investor noted, there is a large step-up and I understand again, the step function as you onboard merchants, but just so you can talk more about the things that need to happen, what can -- what needs to go right to get to that number, that's $37 million to $40 million?

Ryan Hamlin

Yes. No, I think it's a couple of things. One is the speed at which we can get our contracted merchants through underwriting is always -- I won't say it's an unknown, but each of these different companies in the cannabis industry, some of them have multiple ownership groups. So, it tends to take a little bit longer getting those live. So, of course, just time through underwriting and getting them live, it's going to be something we're going to watch very careful.

The good news is we had the 100 that we said were queued up and we were able to get basically half of those live in the last three and a half week. So, I think it's a good proof point of once they're in the pipeline and they're contracted, we can get them live.

I think the other kind of unknown is just making sure that with the pipeline, we keep it strong there. It looks great today, but like anything I mean, these are sales cycles and given everything that's going on in the market and inflation, everything else, I mean, there's always going to be some external pressures.

But at this point, I would say the two things we're going to watch carefully is ensure that the pipeline it's there, stays strong and it really focuses on MSOs and that's a huge part. You've been -- you and I have talked about this a lot, James, that's a really big part of our strategy.

And then the other part is just streamlining the underwriting process and getting it and speeding it up. In fact, we just hired two more people to our underwriting department in the last couple of weeks. So, the whole goal is just get them live and processing, because then that gives us that confidence that that we can see as we as we look forward to making sure we hit that guidance of $37 million to $40 million.

Unidentified Analyst

Yes. No, that makes sense and appreciate that. And certainly, adding to the underwriting team too can help. Sounds like that would help accelerate that. But I guess so -- in addition to then the onboarding, obviously, I would imagine versus the same-store sales growth that you disclosed, you need to see that recover to a number that looked closer to fiscal 2021. Well, I guess how much of a recovery is contemplated in your guidance as you look through that?

Ryan Hamlin

Yes. No, it's good. In fact, we looked at it pretty closely and studying what was going on in Q3, Q4, and Q1 and just to give you some numbers, because I have them in front of me, I want to share that with you.

We looked at our POS sales and we saw a 6% decrease from Q3 to Q4 as an industry and then we saw a 9.3% decrease in Q4 over Q1. So, that's an industry-wide, we saw decrease. Now, that's the downside.

The flip side is as we exited Q1, we saw that those same stores that had decreased over those two periods have now gone back up as they exited March up 11%. So, in essence, a full recovery and in some cases even have grown a little bit.

So, we knew that this was part of the industry effect. It's unfortunate that the revenue was basically flat. I guess the positive is that even though the overall sales declined by a call it 10%, we were able to keep up by adding more stores and so that we didn't have a down quarter, but we had at least a flat quarter to kind of recover that industry dip. And then as we've now exited into Q2, the same set of stores are already up 11%.

Unidentified Analyst

That is really, really helpful color. Thank you for that. And I guess the good news is you have easy comps next year for the 1Q than 4Q.

Ryan Hamlin

Yes, exactly.

Unidentified Analyst

Okay, last thing as I just dig in again on guidance here is -- okay, so we got the recovery in same-store sales, we've got the onboarding and conversion of the current contracted pipeline as well as the likely to be moving from kind of contemplated into ultimate contributing. I guess, do you need to add more merchants into that pipeline to hit that guidance range now? Like, is there some amounts of merchants that you need to be adding to get the number now? Or is it just purely its execution and then stabilized recovery to get that number to be where you guys needed to be?

Ryan Hamlin

The pipeline as it is -- and there's multiple stages in the pipeline, as you know, and so when they get -- obviously, the most confirmed is the contracted and then you kind of move back in stages.

If we were looking at our entire pipeline today and say, okay, that pipeline converts, then yes, we feel extremely confident we hit that guidance. Some of those early on in the pipeline. So, you kind of want -- you don't want to say with 100%, you want to say hey, I feel great about the pipeline, we're still going to add a few more merchants to make sure that we get to where we need. But I will say just looking at our exit and I can't share it in this call, but just we're obviously paying very close attention to our exit volume, even coming out of May and knowing and then doing and extrapolating out over the next seven months, we feel very good that the current pipeline and what is already contracted is puts us in a really good position.

Unidentified Analyst

That is incredibly bullish and very reassuring to hear. Thank you so much for sharing that. That's all I got. Thank you.

Ryan Hamlin

Thanks James.

Operator

And that's all the questions that we had today. Ladies and gentlemen, this does conclude today's conference. You may disconnect your lines at this time and have a wonderful day. Thank you for your participation.

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