Transcript of
POSaBIT Systems Corporation
Q4 2021 Q&A Call with Stansberry Research
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Participants

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Tom Carroll - Analyst, Stansberry Research
Ryan Hamlin - CEO
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Presentation

Operator

Good afternoon, ladies and gentlemen and welcome to the POSaBIT Systems Corporation's Q&A call. At this time, all participants have been placed on a listen-only mode, and we will open the floor for your questions and comments after the presentation.

Pleasure to turn the floor over to your host, James Carbonara. Sir, the floor is yours.

James Carbonara - IR, Hayden

Thank you, operator and good afternoon, everyone. Once again, welcome. 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.

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 and 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.

With me today are; Ryan Hamlin, CEO of POSaBIT; and Matthew Fowler, CFO; as well as Tom Carroll, analyst with Stansberry Research. Given the technical difficulties with the Q&A session during last week's earnings call, we thought it would be a good idea to hold the fireside chat type of discussion and go over some items. To help you with this, Tom Carroll has agreed to run the discussion, beginning with several of his own questions for management. At the end of the call today, we'll open it up to other investors for any other follow-ups.

Tom, I'll turn the call over to you right now. Tom, please proceed.

Tom Carroll - Analyst, Stansberry Research
Great, thank you very much. Thanks, James and thanks to Ryan and Matthew for giving us a bit more of their time. We know you guys are busy running the business. So let's – let's get right to it. I'm quite interested as you know in POSaBIT and I think this is a great idea. So, to that end, I have three discussion points really to go over with you following your earnings release last week. And then, after we go through each of those, let's open it up to Q&A for anybody listening online that may want to add to my line of questioning. Sound good?

Ryan Hamlin - CEO
Sounds great, Tom. Thanks.

Tom Carroll - Analyst, Stansberry Research
Very good. So first discussion point really is on, what I think was probably one of the hot buttons at a quarter, right, your transactional sales. And noting that they declined sequentially by about 4% from third quarter in the fourth quarter. In my view, this was relatively benign, and to me, not all that unexpected, right.

The legal cannabis markets nationwide saw all kinds of pressure third quarter last year into fourth quarter, and even into the New Year, driven by you know all the obvious things out there, right. People getting back to work, stimulus checks going away, inflation pulling on all of our other expenses. And then cynically, I'll throw another one in you know publicly-traded MSOs needing to make their numbers and then reducing price.

So, I mean, it would make sense that kind of your transactional sales numbers may slow or even decline during that time period. But that said, what can you offer us additionally to kind of help explain this, right? Do you have any kind of the same-store transactional sales metrics you could focus on? And are you able to see you know in your numbers, the same kind of industry pressures that you know I am observing out there as an analyst?

Ryan Hamlin - CEO

Yeah, no. Thanks, Tom and great first question to start with because I think you know we solicited feedback from our investors afterwards when we had the technical difficulties and certainly a lot of questions came in on this. So, you know I'm glad we're addressing it upfront. I think you know for us, it comes down to three primary reasons and you touched on some of them, but the one that we didn't talk about. And you know I wanted to make sure we address in this call. As we were in Q4, we made a conscious decision to really migrate over from, we had a more traditional what they call cashless ATM service or a point of banking sometime referred to that, where it rounds up to the nearest $5. We were able to secure a true debit solution. And so, we made the – business decision to move forward and really onboard all new merchants on that new platform.

The good part of that is, obviously there's no rounding, it's a much more compliant solution. And so it's all you know it's good from that perspective, I guess the downside is that, due to the rigorous compliance we have to put merchants through, underwriting takes quite a bit of time. So kind of quite unexpectedly, we encountered kind of a pretty significant delay, and just getting these merchants through underwriting. So that was one big kind of condition that we saw.

The good news is, as we learn that new underwriting process, and even as we got into the New Year you know we were still kind of learning and getting this going. By the time we hit February, we hit our stride, new merchants were coming on board. And, in fact you know not to talk Q1 here, but March saw our largest month ever in the history of the company. And we grew it about 22%, I think were February.

So good news is, we've kind of come out of that little bit of a delay. The other point that I kind of want to make upfront here is that, we did do a hardware change. You know for those of you that follow the payment industry, there was a pretty significant security leak with PAX terminals, P-A-X terminals. In fact, the FBI actually raided their facility that was made known to us and we felt like it was prudent to evaluate other hardware solutions.

So we had to get compliant and standardize on the new piece of hardware which we did that slowed us down a little bit coming out of Q4. And then really the last is, you hit on it, which is yes, there is some seasonality and not so much even seasonality. But we just saw a downturn in the industry in Q4. I mean, all companies kind of across the Board had a lower than expected fourth quarter in cannabis sales. And I think, yeah, it's stimulus check. Maybe they want to spend money on gasoline versus cannabis or something like that. But we definitely saw kind of a downtick.

As far as you know the industry pressures, yeah, I mean, we especially maybe even more so than some of the other technology providers in the space see it, because we are in the payments space. And so we're going to see a real-time hit when consumer spending you know has issues, whether that be inflation-related or whatnot. So you know we're going to see that hit almost immediately.

And then we saw the greater hit with just the cannabis industry as a whole with the MSO pricing pressures and some other things. So you know that – that's kind of the big one.

You mentioned same-store growth. And you know, you and I have talked about this in the past, and it's a good metric. And I'm glad you asked, because for a lot of our investors you know as we grow and we gave, you know we had over $21 million this year, this last year and we gave our guidance of $37 million to $40 million. You know how we get there is not just new stores, it's through same-store growth. In fact, we went back and we looked at our top 25 stores that were with us in 2020. And those same 25 stores are with us – were with us in 2021. That says a couple of things. Number one, we don't turn a lot.

But number two, we're able to baseline those stores over the course of a 24-month period. And we saw a 47% increase in 2021. So that's a very impactful number for us, because that tells us that as long as we're not turning merchants off, we're able to grow those same-store merchants, particularly in the first year 18 months of operations by 47%. So that really helps give us the confidence. And I know we're going to talk guidance here in a bit. But you know that gives us some confidence on guidance as well.

And then, I got to say one last thing just because this was a big question that came up and I just want to cover it because I know our investors will – are interested. But, we got a couple of questions on just stores and store counts. And so you know we are stating that we have now over 400 stores live using our payments and our POS. You know, we think that's a great metric and people always want to know store count.

For us, store count is important when it comes to the POS and the SaaS fees, because that's a monthly SaaS recurring fee. But on the payments side it's really not as relevant, because you know we have some stores like stores in Vegas that are right off the strip that will process $10 million for them, versus you know a small mom-and-pop out in some rural area may only process a couple 100,000 through us.

So you know we make our money on that transactional sales revenue. And so you know we put more of an emphasis on our transactional growth, really than our store growth. But I did want to publicly state that you know we're in over 400 stores now, because that was something that our investors were asking. So, sorry for the long answer to your first question –

Tom Carroll - Analyst, Stansberry Research
Okay.

Ryan Hamlin - CEO
But I definitely wanted to knock off a few of the big items.

Tom Carroll - Analyst, Stansberry Research
Yeah. I do have a follow-up on that. So you're pointing to kind of the underwriting process as well as the hardware change as well as just normal seasonality. I guess, if you put the underwriting and the hardware change into one bucket, and you put you know just industry pressures in the other. And again, we're not talking about a big decline third to fourth quarter,

but how much of it was – was it 50:50? Was it you know 70:30, which was the bigger impact on the transactional sales decline?

Ryan Hamlin - CEO
It was definitely the down fourth quarter in the cannabis industry. In fact, if you looked at – we looked at some of the –

Tom Carroll - Analyst, Stansberry Research
Seasonality more so.

Ryan Hamlin - CEO
Yeah, yeah. We looked at our Q4 in 2020 and the growth that we happen back there, and we actually you know had a decent growth in Q4. And so really, again, baseline those exact same merchants, you saw a decline in fourth quarter. So that tells you that the cannabis industry as a whole was down that this really was you know tied to the industry and the seasonality in Q4.

Tom Carroll - Analyst, Stansberry Research
Yeah. And then one other, you mentioned the 47% same-store increase number for 2020. Do you have that? Do you have that number specifically for fourth quarter over fourth quarter?

Ryan Hamlin - CEO
I don't have it handy. But that will be some we can come back with I know you know later this month, we'll be talking again with our Q1s. And I like that. That'll be something we can share with you in our Q1.

Tom Carroll - Analyst, Stansberry Research
Right. Okay, thanks for that. My second discussion point here again is, let's chat a little bit about your guidance which you know was you know $37 million to $40 million on about $700 million in transactional sales, great growth, no matter how you look at it. But the implied take rate in your guidance is about 5.5%, right, which is roughly 50 bps lower than where you ended the year. Even more than that on the 4Q. Any specific reason for that conservatism you're banking in? Or maybe just goes back to that mix shift you were referring to increased competition? Well, can you talk about that?

Ryan Hamlin - CEO
Yeah. You know it's primarily mix shift, that transition from a POB transaction, the point of banking you know round transaction to a true pin debit transaction. And the reality is, it costs us a little bit more, not only just from a compliance cost to get them on boarded, but just our cost of processing is a little bit more. So you know we saw both kind of a little bit of a – a little bit less top line and a little bit less margin on those, but we think in the long run, that's the better solution, it's the more compliant solution, frankly, it's directionally where the industry is going.

And all of our customers that have migrated over to debit you know are happy, because it's a – it's to the penny, right. It's a nice solution. And so we feel like you know in the end, it's going to result in more transactions over time. And given that we really just don't have much of a turn right now. That's going mean you know more revenue in the long run for us.

Tom Carroll - Analyst, Stansberry Research
Yeah, okay. And also on the call, you spoke about a pipeline of 100 stores getting on boarded in the next 60 days. I think I have that right. Or was it 60 stores in the next 100 days? One or the two? But of that cohort, you said it's expected to drive about $5.5 million in revenue, and I wasn't completely sure if that was part of your guidance or in addition to it?

Ryan Hamlin - CEO
Yeah, no – it was 100 stores in 60 days, first of all. But it's – you know the way we think about it is, it's going to drive annually – annualized $5.5 million. So, if you know over the next 12 months, it's $5.5 million. So roughly you know that's going to be prorated this year. So call it roughly $4 million. And that is included in our guidance. So, you know you can count so to speak that $4 million you know already quote on the books or booked revenue. It just, and it'll be going around in the next 60 days.

Tom Carroll - Analyst, Stansberry Research
Okay, so said differently I guess looking at your guidance, you've got to increase revenue $17 million or so. $4 million of that is already spoken for basically.

Ryan Hamlin - CEO
Yeah, yeah, exactly. So here's how I would kind of do the math. I would say $4 million that's kind of spoken for, we've got about another 300 or so merchants in our pipeline that we're actively working on right now to – you know to close later this quarter, which then you know we'll see the effects of those being rolled out in Q3 and Q4. Then you have to look at our same-store growth which we just covered, which is that – you know that 47% number.

So you got revenue increases coming across from just your same-stores, we have some new products coming out that we haven't actually modeled. So that's going to be upside to our guidance. And I think I'd say you know my final point on guidance is you know as we came out this year and kind of got through some of the hardware issues and some of the onboarding issues of underwriting you know we're really seeing this, what – for a lack of better word, contracted revenue or you know that we booked revenue that we want to start to account for.

So when we have our Q1 call at the end of this month, we're going to forecast and talk a little bit more about our books, because it's important to understand that we have these merchants already under contract, so the revenue is coming, they just got to get through our underwriting. And I guess I would say you know the other point on guidance is historically I think this is good as you know we – we've been conservative on our guidance and we least-to-date we've exceeded our guidance every single time we've done that. So you know we feel good about where we are today, we feel good about where we are so far as we've entered into this year and kind of stand behind that $37 million to $40 million guidance.

Tom Carroll - Analyst, Stansberry Research
And maybe I'm dumbing this down too much. But could we – or is this something you guys think about internally you know like for every 100 new stores that you sign up you're going to generate $5.5 million in revenue? I mean is that kind of a rule of thumb? If you get – what did

you say, you have 2 – 200 in the pipeline kind of after these 100? I mean that's another $10 million, right?

Ryan Hamlin - CEO
Yeah, yeah. And so you know the way I would think about it and you're right. I mean that math is kind of a simple napkin math the way to look at it. You know the one thing that's always going to be the variable is you know when you land an MSO and those are larger stores and so you get a higher transactional volume you know that 100 stores might generate $150 million in transactional sales versus maybe $100 million. So it's – you know it's a general rule of thumb that you can kind of do that rough math that way. But you know with our strategy being really focused on a lot more higher volume stores and MSOs, we would hope that that's going to go up and obviously be a bigger number than what we're stating today.

Tom Carroll - Analyst, Stansberry Research
Yeah. So besides payment processing, how much your guidance is inclusive of things like you know point of service and the kiosks that you guys are putting into dispensaries?

Ryan Hamlin - CEO
Yeah the point of sale, POS is included in our overall guidance. And that's going to be our you know SaaS fees, our monthly recurring SaaS fees as well some hardware revenue. The kiosk isn't – the way I view the kiosk, because that's all upside, it basically just helps give us more payments penetration. So instead of the customer just paying at the counter, maybe they place an order online and they come and pay at our kiosk. So that's going to be upside, that's all about that you know 47% growth that we talked about year-over-year in ways that we can encourage our merchants to start to use our debit processing more than cash and create you know, honestly create much safer environment than what's in place today.

Tom Carroll - Analyst, Stansberry Research
So how many of the 100 in the pipeline over the next 60 days are interested in you know these add-on services? Again like the POS –

Ryan Hamlin - CEO
Yeah, while the POS has been really successful. And I think we even you know addressed this on the call last week, where we had a doubling last year. And we just – you know well again, we'll have our Q1 stuff coming out, but I can tell you, we're having a really nice quarter with our point of sale so far, so which is great. So, really good adoption on the POS. And you know the kiosk, we anticipate that more and more of our just standalone payments customers will want to use this, because it's just another way to the align buster you know, particularly on busy stores that have lineups.

You know if you know what you want, you walk to the kiosk, you order it, you pay and you just wait for your name to be called. It's really kind of – you know we're seeing modern retail move that way you know a lot of fast food restaurants, McDonald's, everybody's really moving to this kiosk model. So more and more it's going to be something that consumers frankly expect. And that's why we're you know the first to market with that to have our payment capability built in.

Tom Carroll - Analyst, Stansberry Research

All right. Can you talk a little bit about I know you know you and I have chatted in the past, again about kind of how you want to shift the focus away from gross profit margin to kind of absolute dollars. You know and certainly doing you know whatever you did this last year, $5 million in change going to what, $9 million to $10 million. You know, you're doubling it.

But if you look at the absolute dollar increase, and again, kind of throwing it back to the direction you want to change the narrative, and you know you added about $4 million gross profit last year, your midpoint in your guidance calls for a little less than that. So like 3 – and again, we're talking about small numbers, but you know like $3.7 million. I mean, it's – I guess it depends on how confident you are in the outlook for this year. And again, we'll hear more about that in a few weeks. But is there a sense that you know you expect this number to maybe accelerate off of last year? Or kind of be the same?

Ryan Hamlin - CEO

No, and good question. And again, I would say, this is probably the number two most frequently asked question by our investors. And as they should, I mean I think everybody you know as we evaluate companies, you look at top line revenue growth and you look at you know how's the company being fiscally responsible? And how close are they getting to EBITDA? And in this case, gross profit dollars? So it's certainly something we don't take lightly. And we talk about it quite a bit. But I will tell you, there was a very specific reason why you know the number we put out was at that $9 million to $10 million. And it does show yeah roughly you know kind of growing by the same amount.

But you're right, if you look at pure dollars, it's a little bit less. You know last year, we grew 232% over the prior year. So, that was a massive year of growth. This year, we're relatively you know flat doubling, maybe call it, a little bit more than that, but – or a little bit less than that. And the reason is, we're in high growth mode. You know if you look at companies like us right now, where you're – you have a track record of doubling your revenue, you're going from $20 million this year to $40 million next year, you're making great headway on signing up new merchants, the brand is getting more recognized in the industry. It behooves us as a management team to invest in that acceleration of growth.

And so, yes, we're not saying we're going to be foolish with our money. But we also want to reinvest our revenue back into our business. And as we stated, we want to win larger accounts, MSOs, when you have an MSO that has some price sensitivity, you know you have to maybe take a little bit of a margin hit to win that bigger account. But in the end, winning that account is going to pay dividends down the road, because you're going to grow that account with same-store revenue growth, they're going to add more stores. So, we are making an absolute specific called out effort to say we're reinvesting that capital.

And yes, we're going to have a little bit less total growth, but we're still going to come in at a strong you know $9 million to $10 million. And again, I would hope that like we always do, you know historically beating our guidance and that's certainly kind of our goal. So, that's why we made this shift. And I think you know I guess someone reminded me that when Square went public, their gross margins were about where we are ironically, and so I guess it turned out okay for them, not saying we're going to be Square, but let's hope so. But, you know this is very common, right. This is common for companies like us. You invest to grow and you do it in a fiscally responsible way.

Tom Carroll - Analyst, Stansberry Research
Yeah. Well, that's a good comparative data point. I like it. Let's shift over to kind of some of the pressures on the business. You know, we've already talked about just the industry cannabis pressures over the last six to eight months. Again, you've mentioned you just said March was one of your best months ever you know I had a large MSO tell me that they you know saw 15% you know average price increases in March.

So, it looks like things are flattening out or at least not getting less bad, so to speak. And it sounds like you have seen that. But what are the – besides just the overall market impact, what else is impacting or could really hurt the guidance you've given out there? So, maybe talk a little bit about competition, you mentioned going after larger MSOs. I imagine they squeeze you more than mom-and-pops do. You know any pushback from your revenue sharing partners. If you could talk candidly to us a bit about that?

Ryan Hamlin - CEO
Yeah. So a couple of things there. I think the first and is correct. I mean, we said – March was and I mentioned as March was our highest month growing by 22% of our February, highest month ever for us, so we're definitely coming out of it. I don't know if you can – you know consumer spending habits maybe are coming out at the end of the year after the holidays have a little bit more free capital I'm not sure what it is, but we're definitely seeing it you know maybe from of the end of the year MSO pressures are kind of relieved a little bit.

But yeah, so we're seeing definitely the trend coming out. And that's good. And you know we'll share more in our Q1 at the end of the month about that. You know competition you brought up. You know for us, it's an interesting question, because we compete actually in two pretty different areas. One is our point of sale business, which is a traditional SaaS business, and the other is our payments business. And you know which is transactional fees.

On the POS side of it, competition you know I would lie here, I mean, it's competitive, there's definitely you know 10 to 20 different POSs out there, I would say probably 10 kind of notable ones. And you know we're in the – probably the 5, 6, 7 range right now as far as where we fit in. And so we know you know we have room to compete and win. And our plan is definitely to get into that top three you know soon, but there's competitive pressure. So when you're competing in that kind of a space, you got to remember the cannabis industry only has 9,000 retailers.

So you've got a relatively small market with a lot of competition. So, what does that do? Usually, some people do price drops and give away software for free, give away hardware for free, you know we're not doing that we think you know we have a great product, we will win on you know the quality of our products. But yes, that kind of POS pressures are being felt by us as we go out in the POS market.

On the payments side, kind of the flip side of that, though, is we're still – you know there's not a lot of competition, particularly in the true debit space. You know there is the POB competition out there and they're being successful, they're still out there. But the biggest competition is still the ATM and cash. I mean, when you look at these stores, it's surprising that still probably 70% of all transactions are still cash-based in this industry.

And so it's creating safety concern issues here in the State of Washington, we got 80 stores broken into and just the first part of the year. So you know a little bit of a side topic to your competition. But I think that helps us. I mean as we are out there promoting our cashless services and our ability to make it a safer environment for our customers, we're seeing you know we can win in that space when it comes to the straight up competition, because we can compete against cash.

You know the last thing I think you mentioned was just around some of the MSOs and I kind of mentioned that already. But you know, we made the decision as an executive team last year, the – really the second half of last year to really focus on MSOs. And we've landed a few, you know one of them I mentioned on the phone last week, Loom, which is the largest chain in Michigan. You know we have a couple others, and we hope to announce some of that in our Q1 or at least talk about some of our MSO wins recently. But you know to win those deals, they take a little bit time. And they take a little bit, like I said, margin squeeze. But in the end, we think that's the right tradeoff.

Tom Carroll - Analyst, Stansberry Research
How about the other thing I noted what your operating costs from a quarter were went up quite a bit. In your earlier – you talked about just investment in the business, and I imagined that's what it was, but maybe talk a little bit to why they're up so much. And do you expect that to flatten out a little bit in the next few quarters?

Ryan Hamlin - CEO
Yeah. That's a great question for Matt. Matt's sitting here next to me and he wants to talk. So I'm going to let him answer that one as well.

Matt Fowler - CFO
Hey, Tom. Yeah. Our headcount did increase which you know drove our OpEx. Q3, we had about 33 employees that grew to 41 at the end of Q4. So we're up about 24% in headcount. We've been bringing on these additional headcount to spur our growth which really accelerates the revenue generation.

These new team members are primarily in sales, product development, underwriting and the onboarding you know all those items that make their revenue flywheel move a little faster. It does take a little bit time to onboard these new team members and get that flywheel moving. And as Ryan mentioned, we saw that impact in our March results.

And other item that increased during the quarter was personal fees. This is tied to just the legal work that was needed for our contract negotiations with those large MSOs. We also did some redesign work on our merchant agreements. And that was really just to make them simpler and more efficient.

In addition, we saw higher stock-comp expense you know that was tied to bringing on new headcount. And you know it's important to remember, of course, that is a non-cash expense. In addition to non-cash expenses, there is the derivative liability. I think you know the important – the derivative liability you know, this is because our convertible debt that we did was in US dollars, and it is settled in shares in Canadian dollars. And because of this US-Canadian dollar exchange rate, it is not possible to estimate what the true conversion will cost us.

Under IFRS we are required to mark the market that adjustment every quarter. And that's the expense or gain from that conversion of those shares. You know and this is, remember, a non-cash adjustment, but it does flow through our P&L. In short, the increase in our share price is that is one of the main inputs in the derivative liability has really amplified this in our financials.

Ryan Hamlin - CEO
Now everybody knows all they wanted to know about derivative liabilities.

Tom Carroll - Analyst, Stansberry Research
Well, yeah I think the main point there is you know non-cash.

Ryan Hamlin - CEO
Correct.

Tom Carroll - Analyst, Stansberry Research
On that particular item.

Ryan Hamlin - CEO
Yeah, exactly.

Tom Carroll - Analyst, Stansberry Research
So actually I just I have a follow-up. And certainly you said around a little earlier you know talking about the however anyway 8,000, 9000 cannabis retailers in the country. You know I think half of them are in California and Oklahoma. What states – I mean, are you continuing to focus on those particular states you know into this year? Or do you expect to maybe migrate to some of the new markets that you know that are like New Jersey there you know transitioning from medical to adult use? And hopefully some other states come November?

Ryan Hamlin - CEO
Yeah, no. Good question. We are in 18 states today, just to remind all of our investors and on the call last week I said we're going to be migrating and say, you know 8 to 10 new states this year. New Jersey is a great example of that, right, where they just you know opening up now, another one that just opened up in April was New Mexico, we were there day one, we already have a pretty good presence already in New Mexico.

So our philosophy is to be there on day one, when a lot of these new states opened. And then for the ones that have been out there already you know we already have a plan that we're addressing and looking at each of the markets. But you know specific to your point about Oklahoma, California, we kind of joke and laugh about that. But you know honestly, Oklahoma and we do have a fair number of stores in Oklahoma. And so I hope you know I'm not offending anyone from Oklahoma or anyone that might be listening on this call from there.

But you know that model is not probably the ideal model of having 1,400 dispensaries in a very small state. You literally have more dispensaries, I think than Starbucks in that state. But you know that we look at them and we evaluate a couple of things, the market size, market opportunity, who are the big strategic players? Are there MSOs here? Are there a handful of stores that would drive high revenue if we sign them up from a payment standpoint? What are the specific needs that we have to do from an engineering standpoint to be ready to serve that market? Those are all the things that go in you know factored into that decision.

So yes, we are you know – our West Coast that's where we started. So we have a heavy presence in you know Washington, Oregon, California, Arizona, Nevada, Colorado, those are big states, clearly, but you know, we got that large franchise in Michigan. So now we have the number one store in all of Michigan with Loom. So, we're definitely making inroads more. And I think I even said on a call last week you know we're really going to focus on the Mid Atlantic you know East Coast states really this next year.

Tom Carroll - Analyst, Stansberry Research
So I thought of another philosophical follow-up. Does it matter between whether you want to focus on you know limited licensed states that might have fewer dispensaries and cultivators, but drive higher prices over the longer-term versus you know states that are more open to having many licenses and many dispensaries. And maybe it's a price volume answer, but have you guys internally thought about that longer-term?

Ryan Hamlin - CEO
Yeah. I mean, I would think it's very similar to how a lot of businesses think about entering into a new state. You know, we look at the market. To us you know, Nevada is a great example where there's not a whole lot of licenses, but the ones that we do have, for example, we have the Reef and you know, the Reef is probably the second largest store in the United States.

And so having a store like that is very strategic for us. So yeah, we look at it as you know not just appear how many dispensaries are in the state. We try to look at is what's the real opportunity and how – you know how can we meet that opportunity at a fast pace, right. How do we accelerate our growth? And does that state makes sense for us to enter into.

Tom Carroll - Analyst, Stansberry Research
All right, that's great. Just looking at the clock here. Why don't I hang up for now? And thank you, Ryan and Matthew. I really appreciate your time again. And operator, maybe we can open it up if there are any questions.

Operator

Certainly. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Your first question is coming from Joshua Horowitz from Palm. Your line is live.

Q: Thanks, everybody and thanks for taking the time to put this event together. I think it's very helpful and great progress on all fronts. I had a question on the CBD business. A couple of weeks ago the announcement was made about moving into that vertical. Maybe you can talk a little bit about what's attractive about it? And if you've been able to win any business? And if so, you know who are you taking business away from?

Ryan Hamlin - CEO
Good question, good to share with you, Joshua. Yeah, let's talk about a couple of things. One is, just the industry itself. So the industry, I think it was Forbes that came out with their numbers. Not to all those, I think it's $4.5 billion, the CBD industry, if you compare that to the cannabis industry of this last year I'd call it $22 billion, $23 billion. So you're looking at a market that's probably 25% you know of the total cannabis market. So it's a real opportunity and it's why we decided to go into it. So it's not small, but it is smaller than recreational cannabis.

The other reason we decided to enter that market was, they have the same needs, frankly, that's a traditional recreational store needs. The need a great POS, they need to be able to track their products through great inventory management, they need to be able to track their customer information. So it's not typically a POS that just Clover or a Square somebody would use, it does require more of the compliance-related technology that we had already built for recreational cannabis. So it made kind of a natural step for us to do that.

The second thing is, they need payments too and while payments are a little bit more friendly in that space, which is great you know we were able to secure the ability to do credit card processing in a traditional CBD environment, which is a huge win for us. So you know we will and have started to process on the credit with the CBD side. So, we've won a couple reasonable size, in fact, we want one account which I think is over 20 locations. That's a CBD retailer that I'd love to give the name, but I haven't got their permission. So I can't say their name. But I can tell you that it's a chain of over 20 stores that we have one.

So yeah, I mean I would look at CBD by the way as upside in our forecast, in our guidance. And you know, Matt sitting next to me here, as our CFO. And I know we didn't really model anything into our guidance for CBD in this year. But you know part of that is opportunistic. We're going to enter those markets, start processing for them, have our POS out there, and then you know see that this business could be a pretty interesting business for us as we go into the next couple of years.

Q: Thank you.

Ryan Hamlin - CEO
You bet, Joshua.

Operator

Thank you. [Operator Instructions] Your next question is coming from Chris Bolster from Propel Advisory. Your line is live.

Q: Thank you. Thanks, guys for arranging this. It's really great to have the opportunity to ask a few questions, because there's not that much information about the company out there. A question about when legalization happens? Do you see the importance of POS being even higher as a means of funneling transactions to POSaBIT rather than other new entrants when the payments space perhaps become – becomes more competitive?

Ryan Hamlin - CEO

Yeah, no good question. And thanks for actually bringing that up, because we did get a few people talk specifically about legalization. So I'm going to probably two things real quick. I mean, I'll give you my two second on legalization even though that wasn't your direct question. All I'll say is obviously we're supportive of federal legalization. We think it's you know it's a good thing for our country as we open up, I think it's going to be a good thing for our market, because it's going to you know probably double at least double the size of the market for us, that we can go after.

The flip side of that is, I think you know it's been challenging to have any form of the legalization or even you know the SAFE Banking Act make much progress. I would say that you know we'll see what happens. We have midterms coming up, I'm not expecting a whole lot of change anytime soon. But let's – to your question specific, let's assume legalization does happen. Yeah, it's definitely one of the reasons you know why we've continued to make our investment into the POS, we think it's strategic, the POS is the hub of the business.

And you know, traditional POS is like a retail POS that you might run in a coffee shop or at a restaurant, they're just not going to meet the need of the cannabis industry, because even when you're legalized, you're still going to have all of the compliance and regulatory requirements, much like you do in a pharmaceutical industry or again, you know in some other like alcohol, tobacco kind of industries, where all those sales have to be tracked. You know, there's taxation that's very different in this space than a traditional retail environment.

So, the amount of work you have to put into your POS to make it work in this environment is substantial. And so, yes, we think the POS is a hub, we think that we – you know in a leadership role, we continue to be able to fend off the competition, even from the bigger guys so to speak, when they come in post-legalization, I think you haven't been to this payments, right. So having our payments business out there, it puts us in a really good position as payments open up and things like SAFE Banking paths and credit becomes available, we can instantly plug that in, because we have that known relationship with that merchant today. We understand their banking needs, we already have their banking information, we've already underwritten them. So it really puts us in a leadership role as we go forward even in post-legalization.

Q: Thank you for that. So maybe a quick follow-up if I might. Just thinking purely about the POS and perhaps also the software for managing operations, payroll and inventory and things like that. But, excluding the payments piece. How strong do you see your competitive position these are the some of the leading competitors, especially, I think Dutchie is number one.

You know there are a few others that are close on their heels like BioTrack and Flowhub and MJ Freeway and so forth. But, you know how would you say you stack up against, particularly Dutchie, but some of the others and then you know what are the most significant strengths you would cite that would make a dispensary choose you over some other solution in this very competitive market?

Ryan Hamlin - CEO
Yeah, good question. A couple of things. And I think I mentioned even though that is called the POS market, you're right, is very competitive and they're – and Dutchie, yes you said that correctly, I would put them in the leader – position you know particularly they did the acquisition of Leaflogix and Greenbits. So it definitely you know accelerated their presence in the industry.

You know we position ourselves probably right now like I said in that kind of 5 – fifth, sixth, you know, maybe even seventh position. So if you're just looking at sheer numbers, our position is that way, if you look at us from a feature by feature and just put us up next to any POS out there, I stand behind ours you know and I'm not going to tell you we're the – you know we're the best across the Board, but we definitely will compete and you compete that with the leaders. I mean, we compete with Dutchie and we'll beat Dutchie and sometimes they'll beat us.

But you know, we're there in those conversations, which really matters right now, I think the big differentiators for us is, we made it very clear that we are going to be the open platform in this industry, we're not going to force our customers to have to use any one particular thing. So if you like your loyalty, let's say with springbig, you can have springbig fully integrated into our solution. That's not something you know that a Dutchie and others can do. And so we've made the choice to be a very open platform and compete on that. We think consumer choice and frankly, merchant choice is going to win at the end of the day.

So, that's our big differentiation, our big you know – we have a lot of key features we've been building out for multi-franchise and for MSO we think that's going to be a big differentiator for us as we go forward. Clearly, our integrated payments is a huge differentiator that a lot of others in the POS space can't bring to market. So long question – a long answer to your question, but you know that's kind of where we stand if you just want to look at numbers we're probably in that you know fifth to seventh place if you're looking at feature by feature, I would put us up against anybody in the industry.

Q: Thank you.

Ryan Hamlin - CEO
You bet. Thanks for your question, Chris.

Operator
Your next – your next question is coming from Scott Weis from Semco Capital.

Q: Hey, guys. Thanks for doing this call. I appreciate as well. Following up on the POS discussion, can you talk about the margin differential between the POS business and the traditional processing? And what is the current revenue mix today? And how do you see the mix in 12 months and in 24 months?

Ryan Hamlin - CEO
All right. Good to talk to you, Scott. Yeah, so a couple of things. So margin, definitely better margins on the POS. That's you know your traditional kind of SaaS revenue. So you're going to get margins in the 60%, 70% which is kind of traditional, even sometimes higher than that. And if you look across the Board, that's kind of what you would expect for POS.

Obviously, the margins on the Payments side much harder, because we're paying a lot, we're paying interchange, we're paying a processor fees and we have our – you know referral programs out there driving inbounds, we have our software hosted fees there. So you know that's why our margin and we publicly stated is that 9 to 10, call it 25 to whatever ex percent. So definitely that's kind of your mix shift between or your mix between your POS and your payments.

As far as you know how we see that going, I think you talked – the next part was you know, how do we see that in 12 months? How do we see that in 24 months? I mean, our business today is, as you know, Scott when we've talked, I mean, we – a lot of our revenue today is driven off by our payments business. I mean we started as a payments company, and frankly you know that's how we learned the industry and cut our teeth. And then we added a POS. And the good news is, you know, even though we're somewhat late to the game in the POS market entering in 2018, we've really covered a lot of ground. And so now we're becoming more and more of a really interesting player in the POS space.

So the mix – on the revenue side is you know still not very much on the SaaS, but maybe 90%, 20% or 9, 10 you know from a – if you include kind of your SaaS fees and hardware, so we're still predominantly payments. As we go forward, you know as I already shared you know, we're making a lot of progress for the POS. So I would see that transitioning in the next 12 to 24 months, you know maybe get to that 80%, 20%.

But you know if you look at traditional businesses out there, payments still is a high revenue business, and it's where you make your money, it's the transactional side of it. And SaaS business is always give the analogy – like a locomotive you know, it takes a lot of work to get them up the hill, but once they get gone, they really just kind of continue to pay with those recurring revenue.

So, you know we're still pushing up the hill a little bit, so to speak, to use that analogy with the train. But I do think those SaaS revenues are going to kick in and you know eventually we'll get to you know maybe as high as 70%, 30% and 30% in SaaS and 70% on payments.

Q: Right, thanks. And then second question. Can you provide an update on the NASDAQ uplist? And the latest there?

Ryan Hamlin - CEO
Yeah, I was going to wait for somebody to do that. Matt, do you want to make that one?

Matt Fowler - CFO
Sure. Yeah, we're continuing to explore the possibility of a NASDAQ uplist. You know when appropriate, we'll update the market on that. We're also exploring other opportunities to help improve liquidity of our stock in the tradability. But yeah, there's no comment on that now until it's appropriate.

Q: Okay. Thanks, guys.

Ryan Hamlin - CEO
Thanks, Scott. Good to chat with you. Another question then we could wrap up. Couple of minutes left.

Operator
Certainly. Your next question is coming from David [Yearns] [ph] – your line is live.

Q: Hey, Ryan. David Yearns.

Ryan Hamlin - CEO
Hey, David. Good to chat with you, David.

Q: Thanks for the great results. My question was related to the NASDAQ listing. And so I don't have another question. Thanks.

Ryan Hamlin - CEO
Well, it was good. Good talking to you, David.

Q: Okay, thanks.

Operator
Thank you. Your next question is coming from –

Ryan Hamlin - CEO
I think we're –

Operator
Joshua –

Ryan Hamlin - CEO
Yeah – I guess I would just say we're just, yeah. We can wrap it up here shortly if there's any other remaining questions. We're a little over time. But we'll take maybe one more question.

Operator
Certainly. Your last question is coming from Joshua Horowitz from Palm. Your line is live.

Q: Thanks. I just had a follow-up. You know as we talked about Dutchie and some of these other ones. I'm just curious like, if we were a private company, and we went to a venture fund or something and said you know, we need $25 million, what forward sales multiple would they put on this company if it were private?

Ryan Hamlin - CEO
Great question, Joshua. You know, I think we already mentioned Dutchie, so let's just you know Dutchie raised I think at $3.4 billion, $3.5 billion and they've raised you know several hundred million, but I think that multiple was like literally in the three-digits like 100 – 100 times multiple to get to that valuation. I think others out there that are raising money that I see right now in this private sector they're raising at you know 20 to 30 times.

You know, and here we are. So we're POSaBIT, we're a public and you know that's fine. We – we've made that decision. But yeah, I mean right now as you guys can see buy our stock, we're trading at you know like 4 times, 5 times our multiples so.

Q: Yeah, I think that Dutchie not helped me out there. Dutchie traded – it looks like it was about 150 times multiple on their sales. So.

Ryan Hamlin - CEO
Yeah, it's kind of crazy. But yep, that's what it is.

Q: And there's nothing particularly special about it versus you know our capabilities or growth it's not like they have something that, we only have that.

Ryan Hamlin - CEO
Yeah, no, I mean I think if anything, they have distribution you know Dutchie when they made their acquisition of tree – or of Leaflogix and agreements that gained a lot of distribution from those existing players. But yeah, I mean, again, like the previous caller had said something about you know how we stack up, I'll stack our technology up any day against the competitors out there in the POS space. And then we clearly have a lead in the payments space. And we've kind of proven that execution over the last five years.

That you know and just the last thing I will say is, we've done everything. And – you know got our company to where we are today and literally on about $8 million in funding. So, I think we've also proven to our investors that we're fiscally responsible and we make good business decisions with the limited cash we've had and we've reinvested in our company to create the growth that we have today.

Q: Well, you've done a phenomenal job and all the shareholders are very appreciative. It's really been a great story. Great execution. So thank you.

Ryan Hamlin - CEO
Thanks, Joshua. All right. Well I think, operator I'll hand it back to you. But I really – just I guess my column is for just thank you everyone for joining on this call. I really appreciate it.

And again, I apologize for the snafu and we look forward to talking to hopefully all of you again at the end of the month when we release our Q1 earnings.

James Carbonara - IR, Hayden
Excellent.

Operator
Thank you, ladies and gentlemen. This concludes today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.