POSaBIT Systems Corporation (POSAF) Q4 2022 Earnings Call Transcript

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POSaBIT Systems Corporation (OTCQX:POSAF) Q4 2022 Earnings Conference Call April 26, 2023 4:30 PM ET

Company Participants

James Carbonara - Hayden IR

Ryan Hamlin - Chief Executive Officer

Matthew Fowler - Chief Financial Officer

Conference Call Participants

James Galanos - Private Investor

Mike Regan - Excelsior Equities

Operator

Greetings. Welcome to the POSaBIT Systems Corporation Fourth Quarter and Full Year 2022 Earnings Conference Call. At this time, all participants are in listen-only mode. A question-and-answer session will follow today's presentation.

Thank you, operator. With me on this call are Ryan Hamlin, Chief Executive Officer and Matthew Fowler, Chief Financial Officer.

I would like to begin the call by reading the Safe Harbor statement. This statement is made pursuant to the Safe Harbor for forward-looking statements described in the Private Securities Litigation Reform Act of 1955. 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 at the date of this call. We do not undertake any obligation to update or supplement any forward-looking statements to reflect subsequent knowledge, events, or circumstances.

The company may also be citing adjusted EBITDA in today's discussion. Adjusted EBITDA is a non-IFRS measure used by management that does not have any prescribed meaning by IFRS and that may not be comparable to similar measures presented by other companies. The company defines adjusted EBITDA as net income or loss generated for the period as reported before interest, taxes, depreciation and amortization, it's further adjusted to remove changes in fair value and expected credit losses, foreign exchange gains and/or losses and impairments. The company believes this is useful metric to evaluate its core operating performance.

Thank you, James, and welcome, everyone. As a reminder, all numbers that I'll be talking about today are in U.S. dollars. Across the board, 2022 was our most successful year for POSaBIT since the founding of our company in 2015. We continued our streak of doubling or nearly doubling revenue year-over-year now for 5 years in a row. We continued to outpace industry growth and we met or exceeded our core guidance in 2022 for both revenue and gross margin.

We also executed our first point-of-sale royalty licensing agreement worth at a minimum $20 million in cash over 4 years. Lastly, in 2022, we laid the foundation for our acquisition strategy, which we have now started to execute upon in 2023. Our balance sheet remain strong and we continue to successfully execute on our business strategy.

Turning to financial results for the full year ending December 31, 2022. We delivered revenue of $49.8 million, which represents year-over-year growth of more than 134%, which greatly outpaced the cannabis industry and significantly increased our market share. Gross profit was $22.6 million, up 302%, and debit transactional sales volume increased 43% to $517 million.

In our earnings release today, we alluded to a change in the accounting treatment of our software license agreement we had announced back in Q3. Had this change not been made, our 2022 revenue would've still been in guidance at approximately $37 million, and our gross profit would've been approximately $10 million also in line with previously provided guidance. Matt will go into further details about this accounting treatment later in the call today.

In 2022, we continue to drive strong growth in our core businesses of payments and point-of-sale. We increased same-store revenue growth at our existing locations by nearly 20% via greater adoption of our fully compliant pandemic processing solution. Additionally, POSaBIT added eight new states in 2022, further increasing our point-of-sale market penetration.

As I mentioned, we achieved our target of entering eight new states in 2022. We began the year with operations in 15 states and ended with 23. To support this growth, our team of high performing sales, engineering, operations, and customer success professionals grew from 32 employees at the start of 2022 to 49 employees at the end of the year, a 35% increase year-over-year, putting us at approximately $1 million in revenue per employee, which is a great metric to demonstrate our ability to remain fiscally responsible while still significantly growing revenue.

We are focused on the importance of scaling our business at a pace that aligns with our growth, an important factor in running a sustainable business in 2023 and beyond. In 2022, we continued to invest in our product capabilities. We launched our beta, a POSaBIT 2.0, the newly designed version of our POSaBIT point-of-sale client. It is our most intuitive experience, yet elevating the day-to-day experiences of budtenders, managers and owners, whether they're a small retailer or growing MSO.

We've also continued to invest substantially in our robust payments platform, adding many enhancements to our payments portal for reporting and reconciliation, making our reporting tool easy to use by accountants and owners to ensure proper financial accounting, something that is valued in a highly regulated industry.

As we go into 2023, we will continue to invest in our products and platform with a focus toward adding more merchant service offerings to our already robust suite of products. One significant investment that was already made in April of this year was the acquisition of Hypur for approximately $7.5 million to establish POSaBIT as the top payments provider in the cannabis industry in terms of overall market share and number of processors supported.

It's important to note that $6 million of the $7.5 million paid was in equity. This, again, demonstrates the value that Hypur and its investors placed in owning our stock versus being paid in cash. We treat our equity as a very valuable currency and continue to be careful in how we use this currency as we grow.

billion.

Hypur has extensive partnerships with banks and credit unions throughout the U.S that have used this technology to provide banking and payment services to the cannabis industry since 2016. This acquisition enables us to offer a comprehensive suite of payment and compliance solution, including redundant pin debit payment processing, Hypur Pay, a leading cannabis ACH e-commerce and mobile payment solution, Hypur B2B ACH, which has robust invoicing functionality and Hypur Comply, a leading compliance technology for financial institutions serving the cannabis industry.

With the addition of Hypur's PIN debit, it now makes POSaBIT the only pin debit provider in the cannabis industry that has dual processors for backend redundancy, as well as allowing us to optimize which solution works best for our merchants based on their location and processing needs.

Lastly, on the product side, we continue to expand our breadth of point-of-sale features and partners we integrate with to provide the most open platform to ensure merchants have the choice of products to use. Many in our industry require merchants to use tools in a closed environment.

We have always believed in the freedom of choice, and I know our customers, merchants appreciate not being limited by the type of solutions they need to run their business. This is why POSaBIT has always placed a high value in our integration with industry partners who collectively support the entire technology ecosystem necessary to compete in the marketplace.

capital. Our open platform and strong reputation as a point-of-sale leader were critical factors for this partner to select POSaBIT. This partnership is a great proof point of the value of our solutions and how it is architected to handle tens of thousands of transactions a day.

Now, I'll briefly discuss our sales pipeline. We have our strongest pipeline ever as we exited 2022 and into Q1 of 2023 with more than 200 deals in process that should be coming online over the next two quarters. With Hypur's PIN debit processing now part of POSaBIT's overall debit processing, we are tracking to near a $1 billion in transactional sales in 2023. Our acquisition of Hypur brought together the top two leaders in cannabis payments under one umbrella. We can now unilaterally provide compliant, reliable and redundant payment solutions, further distinguishing us from our competitors.

Let's talk a little bit about the cannabis markets. It's really no surprise that the cannabis industry is getting hit much like the rest of the industries right now in the U.S. We're seeing a decrease in the overall ticket price per transaction, down about 5% year-over-year. While there's a decrease in ticket prices, POSaBIT still is able to see strong same-store growth due to an increase in the number of customers that are using debit over cash during their return visits.

With the industry's overall dip in consumer spending, many of our competitors are now struggling. The days of high valuations for privately held companies are no longer in play, and you're seeing investor frustration over a lack of business execution made on promises that were not kept.

For companies like POSaBIT, this represents opportunities for us to capitalize on distressed companies that no longer have the capital to survive or the longevity to execute out of this industry low. We expect that over the next 12 to 18 months, many businesses in our space will be forced to pursue strategic alternatives or face closing, which creates attractive opportunities for us.

from [indiscernible] $4 million in an all-cash transaction.

Since then, we received notice of termination of the definitive agreement from Akerna. The notice states that Akerna has determined that a third-party proposal for the acquired company is reasonably likely to result in a superior offer under the definitive agreement. After considering all relevant circumstances, the POSaBIT Board and Management unanimously agreed not to increase our offer to match the alternative offer.

It is important to note that this does not impact the commercial agreements in place between MJ Freeway and POSaBIT, including a payment services referral agreement, which grants POSaBIT certain exclusive rights to provide payment processing services, including our newly acquired suite of Hypur payment products to MJ Freeway merchants.

I'll end talking a little about -- a little bit about some organizational changes and updates. We added three new C suite executives to our team. Chris Baker was recently appointed to the newly created role of Chief Strategic Officer, leading our acquisition integration team, as well as several core operational roles including HR, IT and business development. Chris has more than 20 years of leadership in the technology industry and it has led award winning multidisciplinary teams for global enterprise clients.

Sarah Mirsky-Terranova joined us in February and was appointed Chief Compliance Officer. As a leading provider of payments and cannabis, it's expected and needed to have a dedicated CCO on staff to ensure we remain fully compliant in this ever changing industry. Sarah is a skilled compliance executive and attorney with extensive experience managing and advising an in-depth case investigations pertaining to BSA/AML, financing and trafficking, sanctions, KYC, and fraud-related matters.

invaluable to us as we continue to grow as the payments leader in cannabis.

With that, I'm going to now turn the call over to Matt Fowler, our CFO, for a more detailed review of our financial results for the fourth quarter and full year ending December 31, 2022.

Matthew Fowler

Thank you, Ryan. Before I start with the results from the fourth quarter, I did want to reiterate the updated accounting treatment for our software license agreement. As many of you may have read in today's press release, it was part of our year-end audit, it was determined that the software license agreement previously announced on August 23, 2022 should be accounted for as a right to use instead of a right to access under IFRS 15. This change resulted in accelerated recognition of licensing revenue for the year ended December 31, 2022. It is important to note this change does not affect the underlying timing of cash flows from the license agreement.

The impact of the change was we recognized approximately $15.2 million in revenue 2022 for the license of the software and support services tied to the licensing agreement. The remaining balance for the support services will be recognized on a straight line basis over the life of the contract. This will result in approximately $1.5 million of revenue each year from 2023 to 2025 and $800,000 in 2026.

As far as the impact on 2022, the change in accounting treatment of licensing agreement resulted in total 2022 revenue of approximately $49.8 million. As Ryan mentioned earlier, excluding the change in accounting, 2022 revenue would have been approximately $37 million and gross profit would have been approximately $10 million in line with previously provided guidance. With that let's turn to Q4 2022 results.

Total revenue was $24.9 million, up 289% compared to $6.4 million in the fourth quarter of 2021. Gross profit was $16.2 million or 65% of revenue, up 1,146% in a $1 basis compared with $1.3 million or 20% of revenue in the fourth quarter of 2021. Sequentially, gross profit on a $1 basis was up 459% compared to $2.9 million in Q3 2022.

Operating expense was $5 million compared to $2.3 million with prior year's quarter. The primary driver of the increase in operating expense was an increase in administrative expense of $3.4 million. Administrative expense were primarily made up of our people costs, which were $2.6 million. The higher people costs are tied to additional headcount during the year to support our growth, primarily in our revenue operations team which is made up of our sales customer success, 14 and to a lesser extent [indiscernible]. We also had higher stock-based comp during the quarter of 540,000 and foreign exchange of 594,000 both noncash expenses.

Net income was $9.4 million inclusive of the negative impact of $1.3 million noncash change the fair value of derivative liabilities. This compares with net loss of $2 million inclusive of the negative impact of $520,000 noncash change with fair value derivative liabilities in the fourth quarter of 2021. The mark-to-market has a better derivative liabilities tied to our convertible debt as a noncash accounting required by IFRS. It could cause significant differences in net income or loss quarter-to-quarter. Fluctuations through this line item of our [indiscernible] may become more extreme [indiscernible] of increased volatility in the price of the company stock.

Adjusted EBITDA was $12.3 million. 50% of revenue compared to an adjusted EBITDA loss of $911,000 or negative 14% of revenue in the fourth quarter of 2021 turning to the full year. The payments services totaled $517 million for the full year 2022, up 43% compared to $362 million for 2021.

Operating expense was $17.4 million compared to $5.7 million in the prior year. Primary driver of the increase in operating expenses, administrative expenses of $9.9 million compared to $5.6 million in the prior year. The main driver of the increase in administrative expense were people costs of $7.5 million compared to $3.9 million in the prior year. It's noted in the fourth quarter comments this is tied to additional team members hired during the year to support growth. An additional expense in administrative costs also tied to achieving the share-based compensation. We had $2.2 million noncash share-based compensation expenses in 2022 compared to $764,000 in the prior year.

Net income was $8.1 million. Inclusive of the positive impact of $4 million noncash change in the fair value of derivative liabilities. This compares with a net loss of $10.6 million, inclusive of the negative impact of $9.7 million non-cash change in the fair value of derivative liabilities through 2021.

Adjusted EBITDA was a positive $10.4 million or 21% of revenue compared to an adjusted EBITDA loss of $1.3 million, or negative 6% of revenue in 2021. Cash on hand at the end of the year was $3.1 million. This compares to $4.4 million at the end of 2021.

Our debt balance remains low at $313,000 of long-term debt consisting of an SBA loan and convertible notes. Finally, we do not have anything new to report about uplifting company stock to NASDAQ or the TSX. Other than to reiterate, positioning of the company so that investors can easily invest remains important to management and the Board and we continue to discuss all options [indiscernible].

Before I hand it back to Ryan, I did want to briefly touch on the impact of the accounting we will have on our 2023 outlook. In 2023, the change in accounting treatment will result in reduced revenue, gross profit dollars, and adjusted EBITDA by approximately $3.5 million. As previously noted, there is no change in the timing of cash flows expected to be received in 2023.

adjustment in accounting treatment, we will see a decrease of approximately $3.5 million to those figures in 2023.

When jesting March 2023 guidance for the approximate $3.5 million accounting reduction, as of March 2023, we would have expected 2023 total revenue of $56.5 million to $59.5 million, gross profit of $11.5 million to $13.5 million and to be slightly negative on the adjusted EBITDA basis.

With that, I'll turn the call back to Ryan for closing remarks.

Ryan Hamlin

Thanks, Matt. Lot of numbers there. Appreciate you going through that. I want to thank everyone for your patience today. I recognize the updated accounting treatment of our software license agreement has cost a little noise reporting today, but it is worth it. The transaction itself is a great source of non-dilutive cash over the next several years. So I appreciate you bearing with us as we explained the pre and post numbers.

The good news that I hope you take away from our call today is that POSaBIT once again hit our guidance of our core metrics of revenue and gross margin, while unfortunately most in this industry have missed badly. It is important to note and I will stress again, that we keep executing and we keep hitting our numbers.

We are living in interesting times right now. It reminds me personally of a lot of other times in my career in 2001 and 2008. We're in a down market and economy and an equally distressed cannabis industry. Good companies come out of times like this stronger than ever, and tend to take a significant market share.

history of our company on any 4/20.

I want to end our call today by reiterating our guidance for 2023, which now includes our expectations for Hypur as well as the new accounting treatment for our POS licensing deal. For the full year 2023, we expect revenue of $58.5 million to $61.5 million and a gross profit of $12.5 million to $14.5 million and to be slightly negative on an adjusted EBITDA basis. This represents a 62% increase year-over-year in revenue at the midpoint in a time when most companies are flat or decreasing their revenue. Gross profit dollars are also growing 35% year-over-year.

Thanks again for your time. Operator, we're going to now open up the call lines for any questions people may have.

Question-and-Answer Session

Operator

[Operator Instructions] And the first question we have today is coming from James Galanos. And James is a Private Investor. James, your line is live.

James Galanos

Hey, Ryan. Congrats on closing out the year [indiscernible] agreements to the guidance range. I think that's really quite the accomplishment considering everything that happened that I can't imagine was contemplated when you guys first gave this guidance. I guess, on the first part, can you [indiscernible] how much the point of banking shift that happened in the fourth quarter was and kind of your outlook for that for fiscal '23?

Ryan Hamlin

of bank. We had fortunately for us, we had a PIN debit compliance solution that we had in the market for about 2.5 years. So we're able to successfully migrate people over.

It definitely had a bit of an adjustment for us just because you had to transition people over, number one. And then number two, whenever there is change always risks the potential for churn. So we did have a little bit of a churn as well. So I think what we feel that we made it through that conversion of POB, the pin, actually very successful and keeping the majority of those merchants. But the way that we recorded revenue from POB to pin, it was a bit of a mix shift, and how the revenues recognized. And so it's a little bit different when you compare a straight point of banking transaction versus a pin transaction.

James Galanos

Yes. Okay. Makes sense. Thanks. Thanks for that. And then I think you might have said this, but I missed it. What was the average order size in the quarter?

Ryan Hamlin

So we looked at it -- you look quarter-over-quarter, it's gone down. It's about -- I think it's 72.40 or something roughly $72.40. And again, that was down about 5% of where we were last year at this time.

James Galanos

Got you. Okay, thanks. And did I hear you say that you're tracking through about a $1 billion in transactional sales as we look to fiscal '23?

Ryan Hamlin

the two -- frankly, the two top providers of payments that are coming together to have a very strong funnel. And we feel we feel great that we're going to get to near that $1 billion mark, which is kind of something we've been talking about for a while now. It's kind of a big momentous metric for us.

James Galanos

Yes, no, absolutely. And that's a good transition into the next thing I want to ask you about was now that you've closed that deal. You talked about this on the call of how it rounds out your offerings. But if you could just kind of talk about what that brings beyond just another best-in-class payments provider that your solution now has that you [indiscernible] before you bought it?

Ryan Hamlin

Yes, so kind of, I guess, a handful of big points regarding the Hypur acquisition. The first is, it gave us dual processing, and processing partners. So no one in this industry today has multiple processors, that's a really important step, because now there's not a single threat of failure. So if for one reason or another, there's an outage, planned or unplanned, you have redundancy built in. So that's a -- that's very significant for us that we're the only provider in the entire cannabis industry that have multiple debit processors, that also allows us to load balance. It gives us the ability to look across geographies to see where some cards are accepted on some networks in geographic areas at a higher percent. And so again, we get a kind of little balance and choose where we put them.

to now have that. The other thing we have is with the B2B invoicing capability. We couldn't monetize the supply chain because we are primarily focused or have been focused 100% on the dispensary. Now it gives us the ability to take this great payments platform we built and add B2B ACH payments and invoicing, basically bill.com for businesses to be able to take advantage of our platform.

And then lastly, it gave us the investment of some great compliance software. So Hypur Comply is used by several banks that bank the cannabis industry. We've always been touting for a long, long time that we value and we do invest heavily in our compliance. And so now to have our own actual compliant software that is used by banks just further strengthens our commitment to making sure we run a compliance service in this kind of very interesting cannabis industry that we live in today.

And then I guess I will say, sorry for the long answer, but Michael, who I announced is coming over, who was the CEO and Co-Founder, he is an amazing person. Already very exciting to work with him. He's been in the payments industry for a long, long time. And I can honestly say he immediately significantly raised up the quality of just the overall payments knowledge on our team and I would put Michael as literally a top one or two or three in the entire industry when it comes to this payment expertise and payment knowledge. So very happy to have him on board as our Chief Payments Officer.

James Galanos

It sounds like he has up to the top three now. So no, that makes a ton of sense. And I guess on the backlog, can you -- that you mentioned at the -- in the press release, can you accelerate kind of the closing and conversion of that backlog? Because it seemed like in addition to all the capabilities you outlined, but there's a ton of room to kind of put your foot down and stomp on the accelerator here for the opportunities they have?

Ryan Hamlin

customers or those merchants into market faster, too. So it was one of the things that we looked at Hypur where we felt like we have this really great underwriting team in place, and that it could definitely help expedite the backlog that they have in their funnel.

James Galanos

Yes, okay. Makes sense. Last question for me, and then I'll give up the phone is -- you talked about 62% growth as the guidance. But if I take the math comment about $3.5 million as the headwind for next year, and kind of compare it to the $37 million you guys did this year, I get something closer to kind of 70% to 72% growth. Am I missing something there? Or is that kind of the core underlying growth outlook for next year is kind of closer to 70%-ish?

Matthew Fowler

Yes, yes. Correct. That's the underlying growth is right. You kind of stack me nailed it there, James.

James Galanos

Okay. That's a really good number. Can you -- and then just starting to the drivers of that kind of how do we get to 70%-ish?

Matthew Fowler

signing on merchants faster than we ever have. So obviously, new store growth. And then frankly, the new products now that we have Hypur ACH products, we have the B2C and B2B that creates a new source of revenue that we otherwise wouldn't have had prior to that acquisition. So you've kind of got three major sources now of revenue that have kind of accelerated it's around same-store, running -- adding more stores because of both the Hypur and the positive funnel, and then having the new Hypur ACH B2B and B2C products.

James Galanos

Got it. That's fantastic. Well, thanks so much for taking my questions guys. Talk to you next quarter.

Ryan Hamlin

Thanks, James.

Matthew Fowler

Thanks, James.

Operator

Thank you. [Operator Instructions] The next question is coming from Mike Regan from Excelsior Equities. Mike, your line is live.

Mike Regan

Hi, thanks for taking the question. Quickly, can you remind us cash flows were unchanged for the software agreement. So that's the cash flows should still be $5 million a year of which only $1.5 million will be booked as revenue? Am I understanding that correctly?

Matthew Fowler

Yes. Yes, that's absolutely right.

sort of bring it up, what -- the average ticket is down about 5%. Do you have sort of an average ticket assumption in your guidance? Is that also down 5% in terms of, obviously, then made up by the volume increases from new stores? And just more people charging?

Matthew Fowler

Nope. What we did is we took the average ticket as we exited the year, and that was the basis for our pro forma So we're actually using that lower ticket price. And so obviously, there's opportunity if things change in this industry, the economy of cannabis and spend goes up a little any -- anything that goes above that $72.40 on average ticket is going to be on top of the forecasts we've already put forth.

Mike Regan

Got it. Because it's basically something [indiscernible] exactly. If it's higher than that will be higher or lower, they'll be lower.

Matthew Fowler

Yes.

Mike Regan

Okay. And then a final question on just the pro forma including Hypur. You close on Hypur, I think April 1. So basically, the base guidance includes 9 months of Hypur, correct?

Matthew Fowler

That is correct.

Mike Regan

Matthew Fowler

Yes, you could add a little bit, Mike. But I think what your question is, yes, we only get to recognize that and we had put down the $5.4 million of Hypur revenue of which we'll get to recognize 9 months of that. That's why when we talked about the guidance, guidance is going up because we -- unfortunately to take down the revenue from the accounting recognition of the POS license by 3.5, that we're able to offset with the incremental Hypur revenue of those 9 months coming in, which is about $4.1 million.

Mike Regan

Got it. Okay, great. That's -- those are the clarification questions I had. Great. Thanks a lot.

Matthew Fowler

Thanks, Mike. Appreciate the call.

Operator

Thank you. There were no other questions at this time. And this does conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.

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