



Investor Presentation

March 31, 2016

Sidoti & Co. Emerging Growth Convention

Forward Looking Statements Disclosure

Except for historical information herein, matters set forth in this presentation are forward-looking within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, including statements about commercial operations, technology progress, growth and future financial performance of Payment Data Systems, Inc. and its subsidiaries (the “Company”). These forward-looking statements are identified by the use of words such as “believe,” “expect,” “prepare,” “anticipate,” “target,” “launch,” and “create,” among others. Forward-looking statements in this press release are subject to certain risks and uncertainties inherent in the Company’s business that could cause actual results to vary, including such risks that the Company’s security applications may be insufficient; the Company’s ability to adapt to rapid technological change; adverse effects on the Company’s relationships with Automated Clearing House, bank sponsors and credit card associations; the Company’s ability to comply with federal or state regulations; the Company’s exposure to credit risks, data breaches, fraud or software failures, and other risks detailed from time to time in the company’s filings with the Securities and Exchange Commission including its annual report on Form 10-K for the year ended December 31, 2015. One or more of these factors have affected, and in the future could affect, the Company’s businesses and financial results and could cause actual results to differ materially from plans and projections. All forward-looking statements made in this release are based on information presently available to the Company’s management. The Company disclaims any obligation to update these forward-looking statements, except as required by law.

PYDS (NASDAQ) Overview

Payment Data Systems is a **next-generation integrated, custom payment solutions** provider for merchants, billers, banks, service bureaus and card issuers.



Management & Team

21 Employees

Founded 1998

Experienced Management Team
with 80+ Combined Years in
Payment Processing

Headquartered in San Antonio with
offices in New York and Los Angeles



NASDAQ

Price at 3/21/16 (\$)	2.06
52 Week Range ¹ (\$)	1.78 – 6.60
Market Cap (\$MM)	25.5
Shares Outstanding (MM)	12.4
Float (MM)	4.6
Shares held by insiders	55.7%

1. 52 weeks includes time listed on OTC before moving to NASDAQ August 11, 2015; adjusted for 15-1 reverse split on July 23, 2015

Investment Highlights



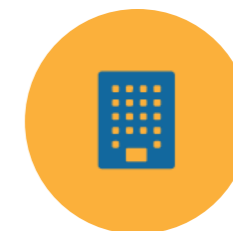
Profitable



No debt



Clean capital
structure



Blue chip
customers



Leading
provider of
ACH and credit
card payment
processing in
niche verticals



Growth
company in
booming online
and mobile
payment space



Sustainable
competitive
advantages by
leading with
technology and
customized
solutions



First prepaid
card integrated
with Apple Pay

Two Pillars of Business



**Payment
Processing
Credit, Debit and
ACH**



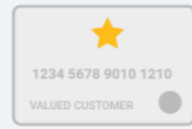
**Prepaid Card
Processor &
Program
Manager**

Revenue Model



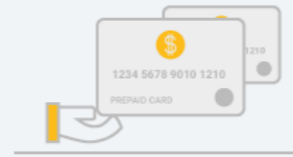
ACH Processing

of Transactions



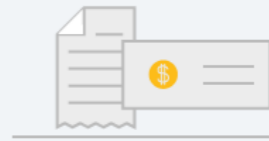
Credit Card Processing

% of Dollars



Prepaid Card Issuing

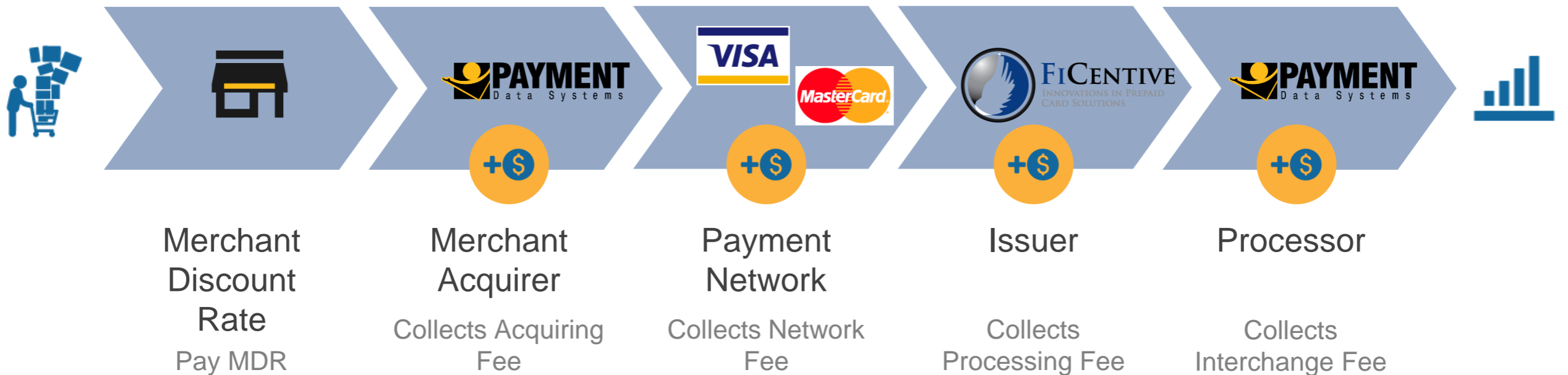
Service Fees +
Network Interchange Revenue



Bill Payment Processing

Monthly Subscriptions + # of Payments

We Generate Revenue Across the Payment Processing Value Chain



What We Do

+
Custom
Solutions



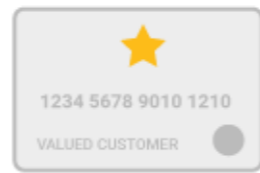
ACH Processing

ACH Origination

eCheck Conversion
Processing

NSF Returned Check
Recovery

Mobile, Web, and Virtual
Terminal Payments



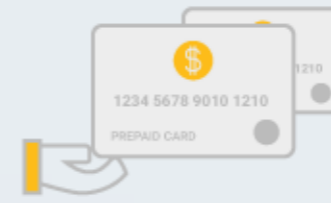
Credit Card Processing

Credit / Debit Card
Processing

Debit Card ONLY
Processing

Account Validation

POS/Card Swipe Retail



Prepaid Card Issuing

General Purpose
Reloadable

Corporate Incentives/
Rewards

Open Loop Issuance

Card-to-Card Transfer



Bill Payment Processing

Electronic Bill Payment

Over 6,000 National
Billers

Web Payment

MasterCard RPPS
Gateway

Competitive Landscape

	ACH	Card Processor	Prepaid Issuer
FirstData			
WorldPay			
Elavon			
Fiserv			
GlobalPayments			
TSYS / netSpend			
Vantiv			
Payment Data Systems			
BlackHawk			
GreenDot			
MoneyGram			

Innovative Technology

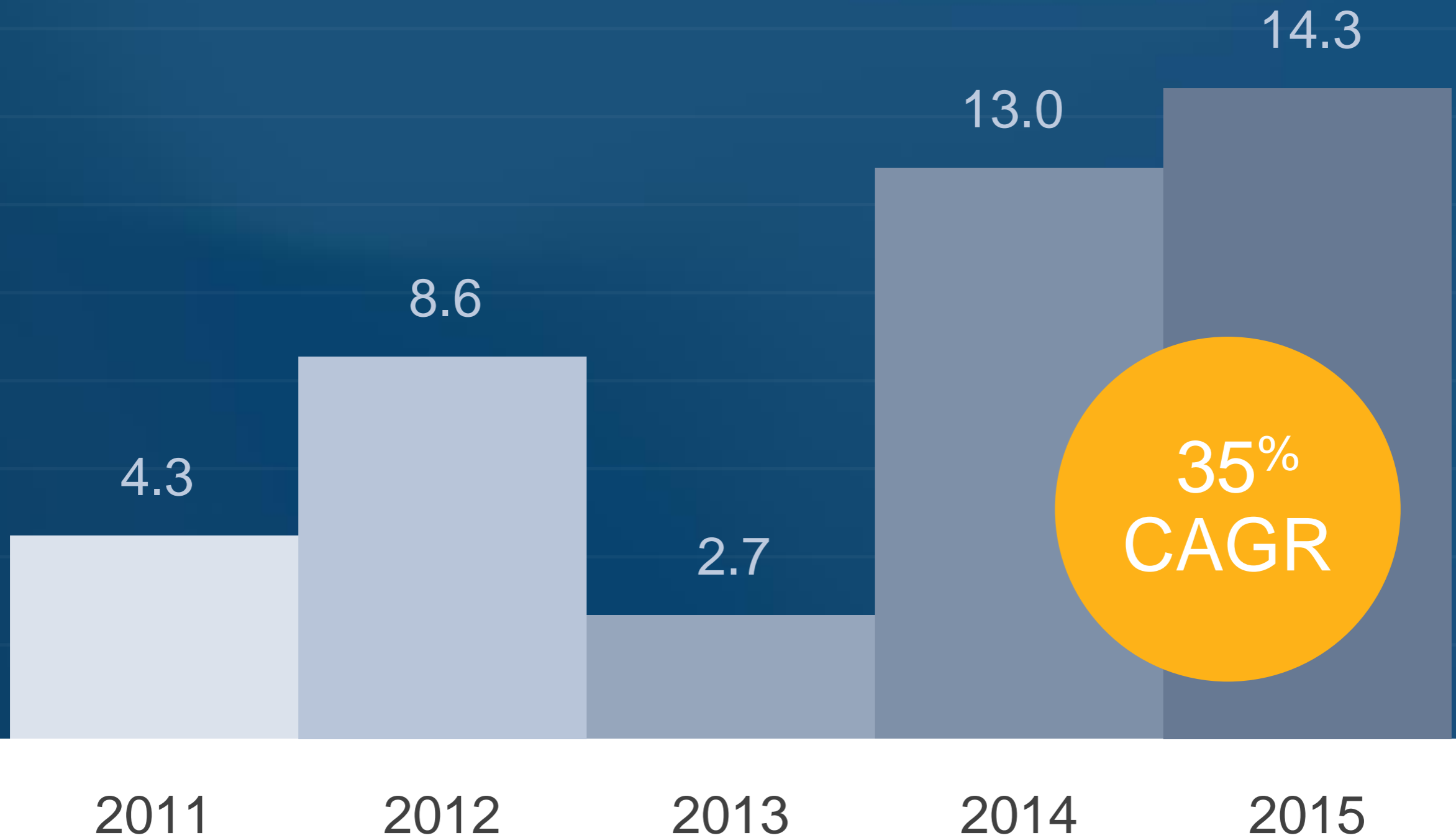
Customized Solutions

Front-End and Back-End Services

Strong Regulatory Relationships

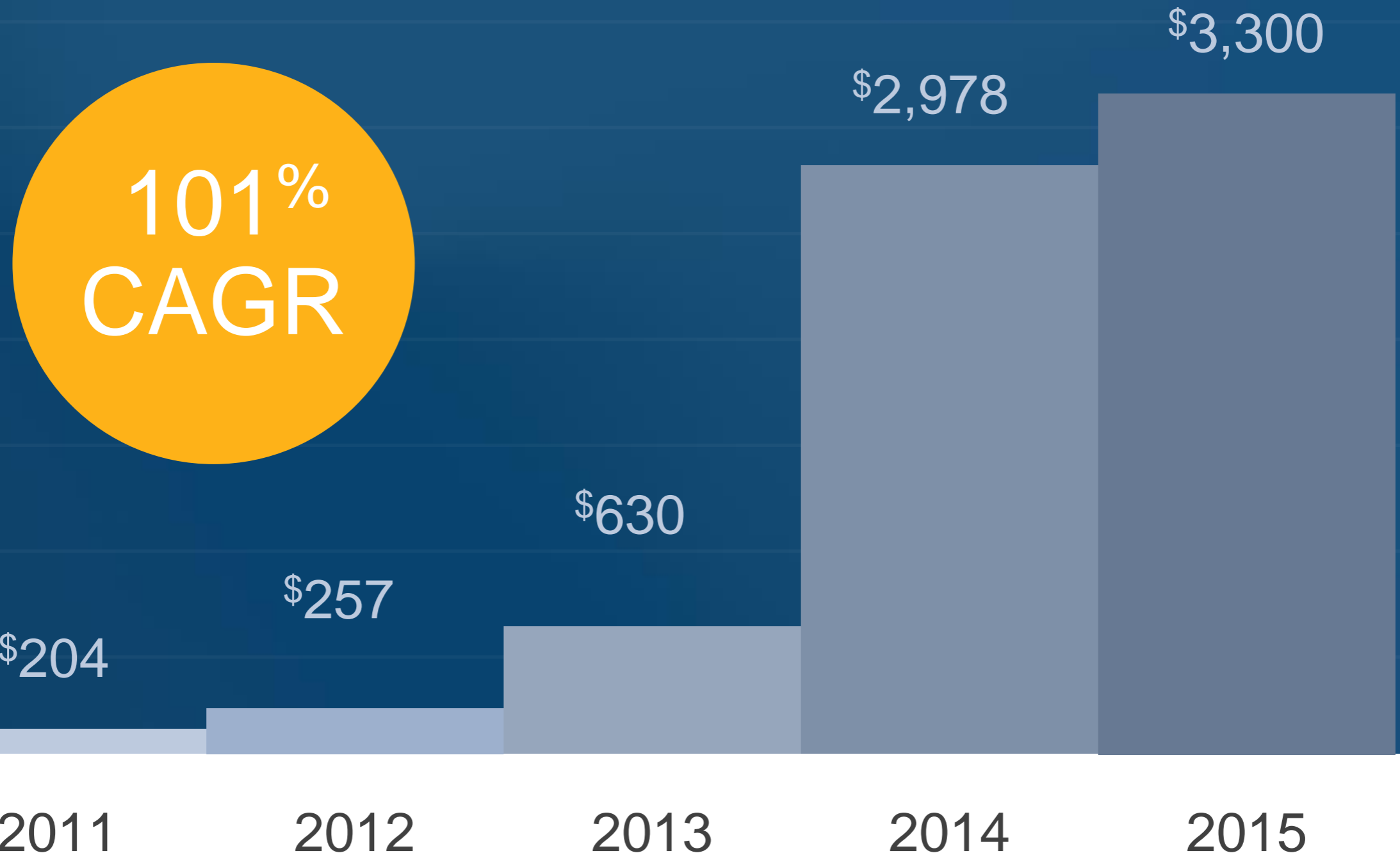
Transactions Processed per Year

Millions



Dollars Processed per Year

USD Millions



Premier Partnerships & Clients



Over 500 Churches

FiCentive

FiCentive offers a custom incentive card solution that your customers may use everywhere Debit MasterCard is accepted.



Improve
**customer
engagement**



Develop
**customer
loyalty**



**Grow
your
business**

Akimbo Card

Protect your bank account and stick to your spending budget

Link a bank account to automate loads & transfers

Share money instantly with other cardholders

Access accounts using any device



Now enjoy all the benefits of your Akimbo Card using Apple Pay®

This Card is issued by Sunrise Banks N.A., St. Paul, MN 55103, Member FDIC, pursuant to a license from MasterCard International Incorporated. This card may be used everywhere Debit MasterCard is accepted. Use of this card constitutes acceptance of the terms and conditions stated in the Cardholder Agreement.

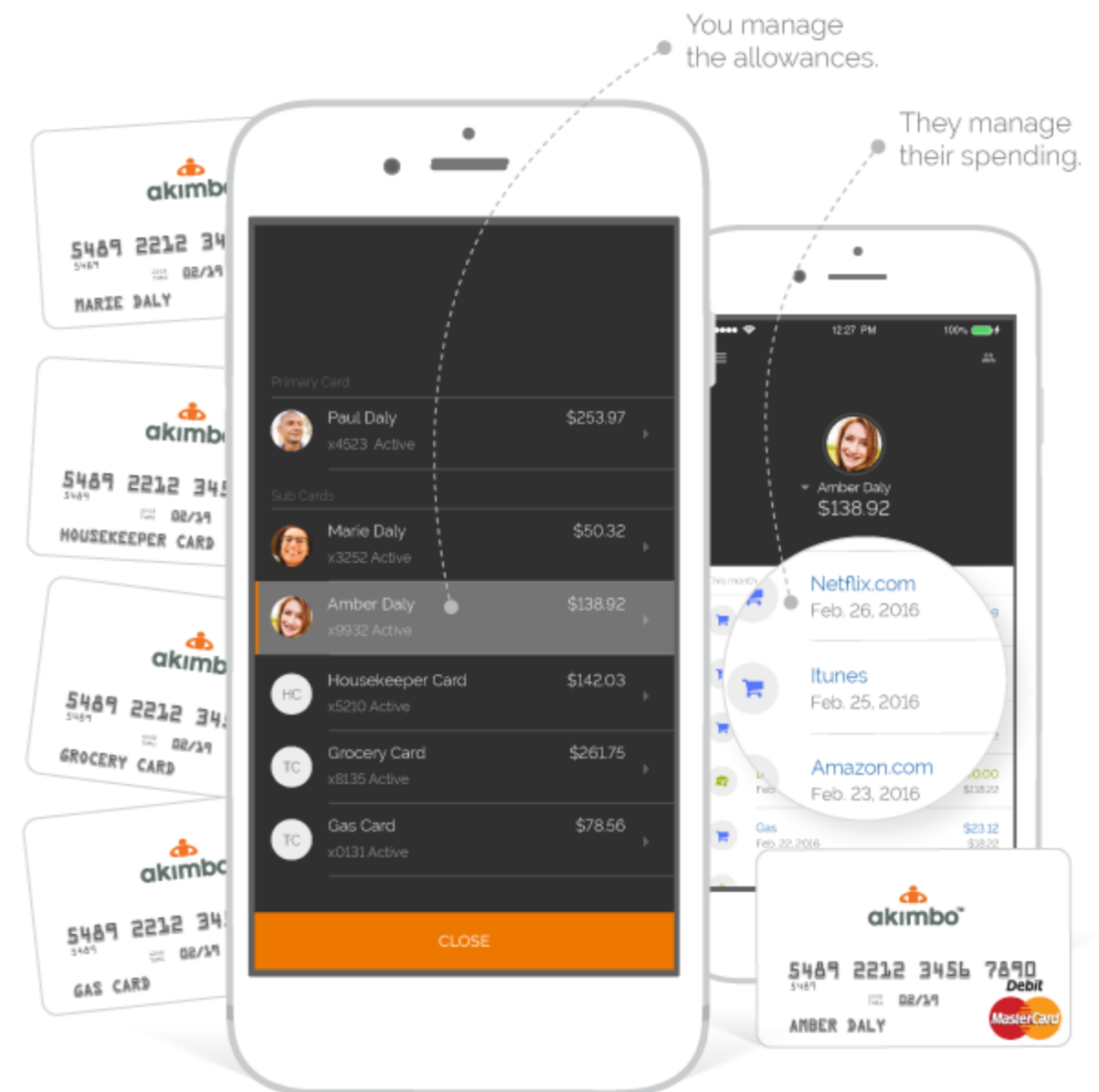
Akimbo Sub-Cards

Give yourself peace of mind by giving everyone in the family an Akimbo Card.

Create up to 5 sub-cards for family budgets and allowances

Review transactions, setup auto-loads, disable cards

Access accounts using any device



This Card is issued by Sunrise Banks N.A., St. Paul, MN 55103, Member FDIC, pursuant to a license from MasterCard International Incorporated. This card may be used everywhere Debit MasterCard is accepted. Use of this card constitutes acceptance of the terms and conditions stated in the Cardholder Agreement.

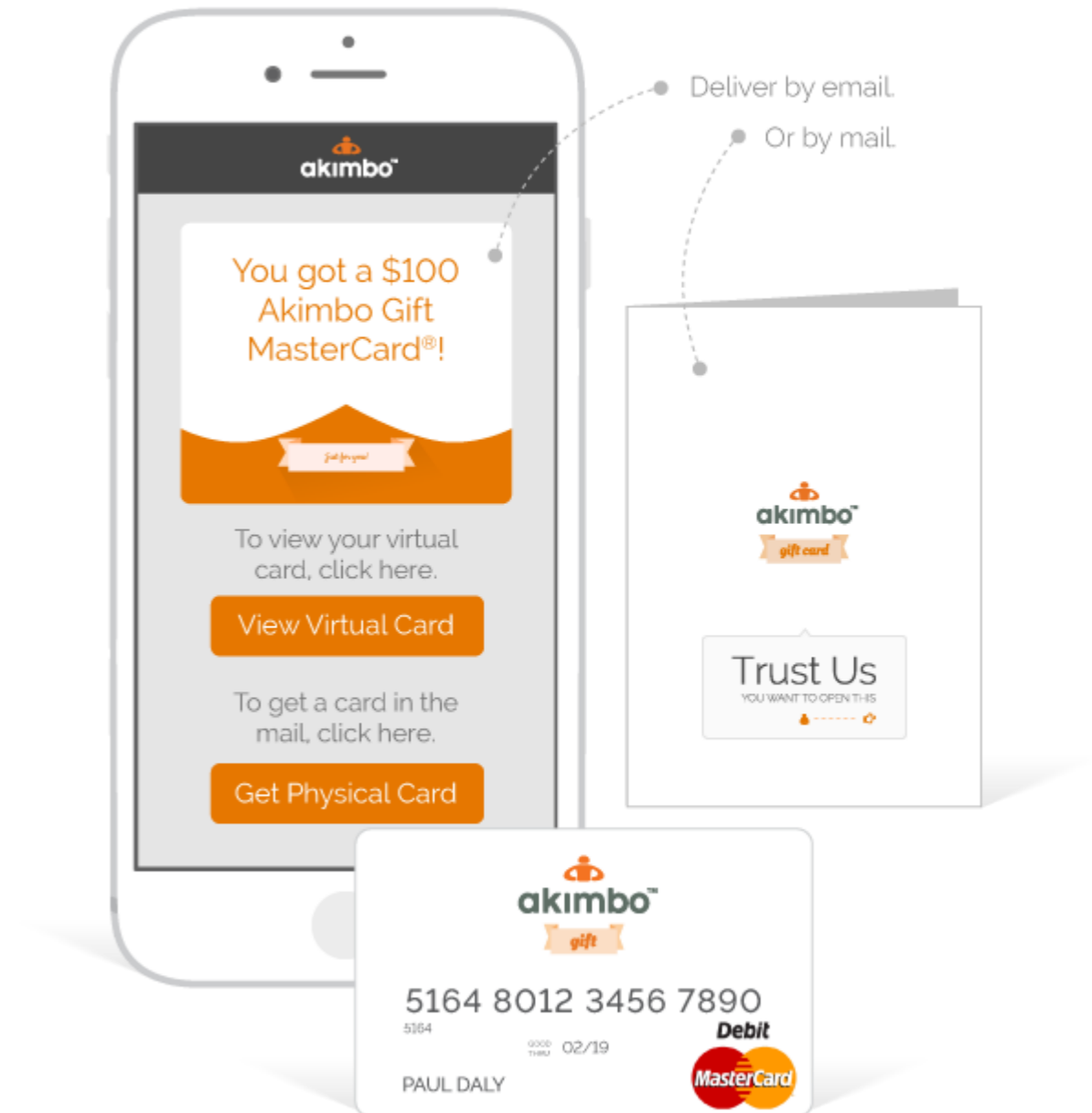
Akimbo Gift

Businesses and Consumers
can deliver a Gift
MasterCard® to any email

Recipient can choose between a
virtual and physical card

Real-time text alerts keep you
updated on remaining balance

Move funds to a reloadable card
for bank transfers and ATM access



This Card is issued by Sunrise Banks N.A., St. Paul, MN 55103, Member FDIC, pursuant to a license from MasterCard International Incorporated. This card may be used everywhere Debit MasterCard is accepted. Use of this card constitutes acceptance of the terms and conditions stated in the Cardholder Agreement.

Financial Takeaways



Strong Balance Sheet

No debt

\$1.3 MM in free cash flow

\$4.1 MM in cash



Strong Recurring Revenue and Margins

Average customer life >4 years

35% Gross Margin

20% Adjusted EBITDA Margin



Growth Focus

New Products

Strategic M&A

Accretive Portfolio Acquisition

PYDS Generates Cash

\$4.1 MM

2014 YE

\$2.0 MM

2015 YE

\$1.3 MM

Cash on Hand

December 31, 2015

Free Cash Generated

Balance Sheet Highlights

USD Millions

Account	12/31/13	12/31/14	12/31/15
Cash	0.8	2.8	4.1
Restricted cash & Settlement funds	25.7	52.2	57.8
Total Assets	27.5	61.1	68.4
Short-term/long-term debt	-	-	-
Restricted cash & Settlement funds	25.7	52.2	57.8
Total Liabilities	26.9	54.1	59.2
Total Equity	0.6	7.0	9.1

~\$40 million in unused tax NOL carryforward

Income Statement Highlights

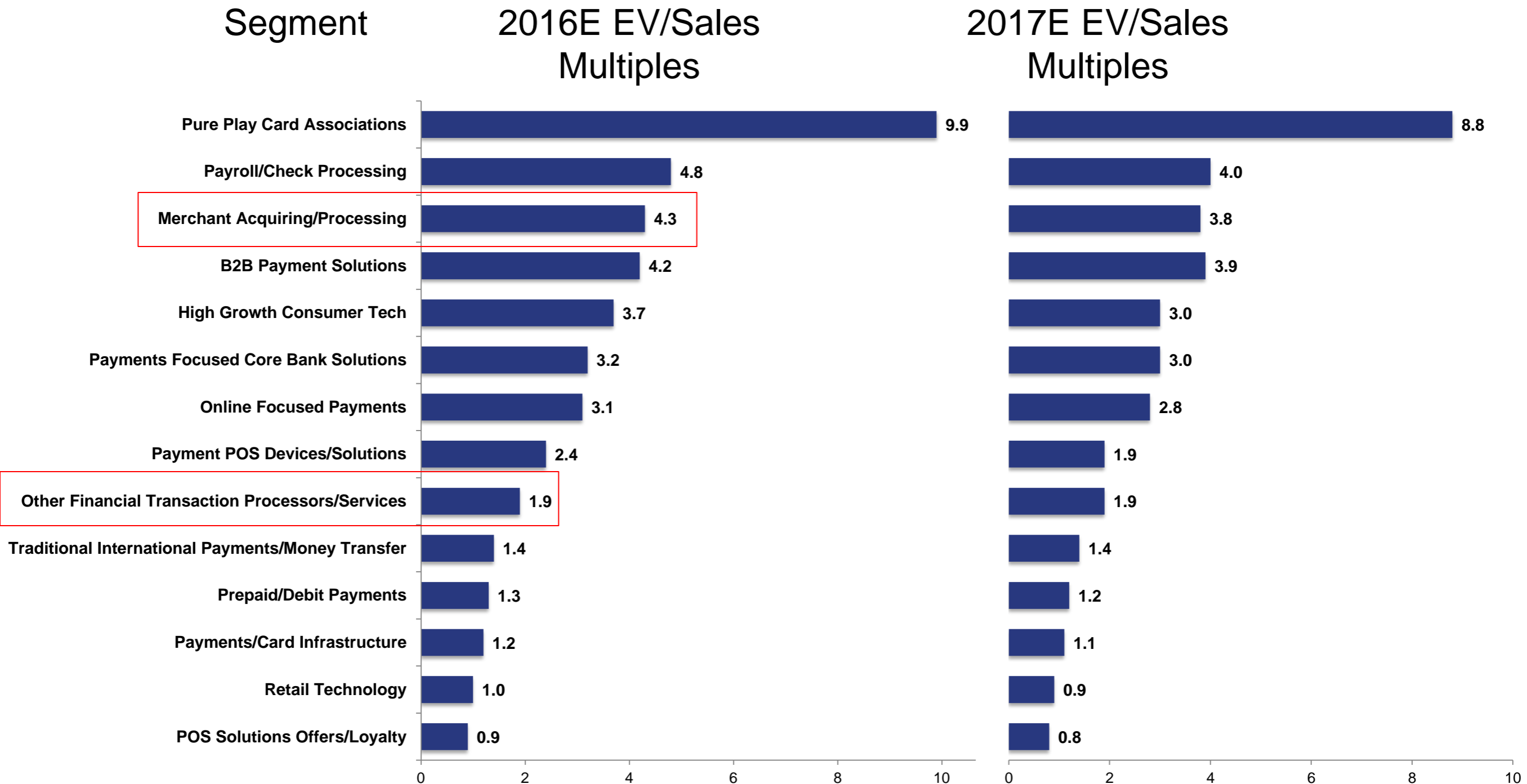
USD Millions

	12/31/13	12/31/14	12/31/15
Revenues	5.2	13.4	14.4
Cost of sales	4.2	9.2	9.4
Gross Profit	1.0	4.2	5.0
SG&A	(1.7)	(1.9)	(3.5)
Depreciation	(0.03)	(0.04)	(0.5)
Income tax benefit (expense)	-	1.5	(0.8)
Net Income	(0.7)	3.8	1.1
Adjusted EBITDA	(0.4)	2.6	2.9

See Non-GAAP Reconciliation in the Appendix

Public Payments/Cards, Loyalty and E-Commerce Solutions Sector Universe

Public Comparable Universe Median EV/Sales Multiples by Segment



Source: Financial Technology Partners, Wall Street Research, Reuters and Capital IQ, updated February 26, 2016

2015 Financial Highlights



Revenue up 7% and adjusted EBITDA¹ up 12%



Significant cash flow generation \$2.1M CFOPS



Investing in growth while maintaining profitability



Strong balance sheet; clean capital structure



\$40 million NOL carryforward

¹ See Non-GAAP reconciliation in the Appendix

Investment Highlights



Leading provider of ACH and payment processing in niche verticals



Growth company in booming online and mobile payments space



Sustainable competitive advantages – leading technology and customized solutions



Loyal base of customers, ranging from Blue Chip companies to small businesses and non profits



Profitable; strong balance sheet, no debt; clean capital structure



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Appendix – Non-GAAP Reconciliation

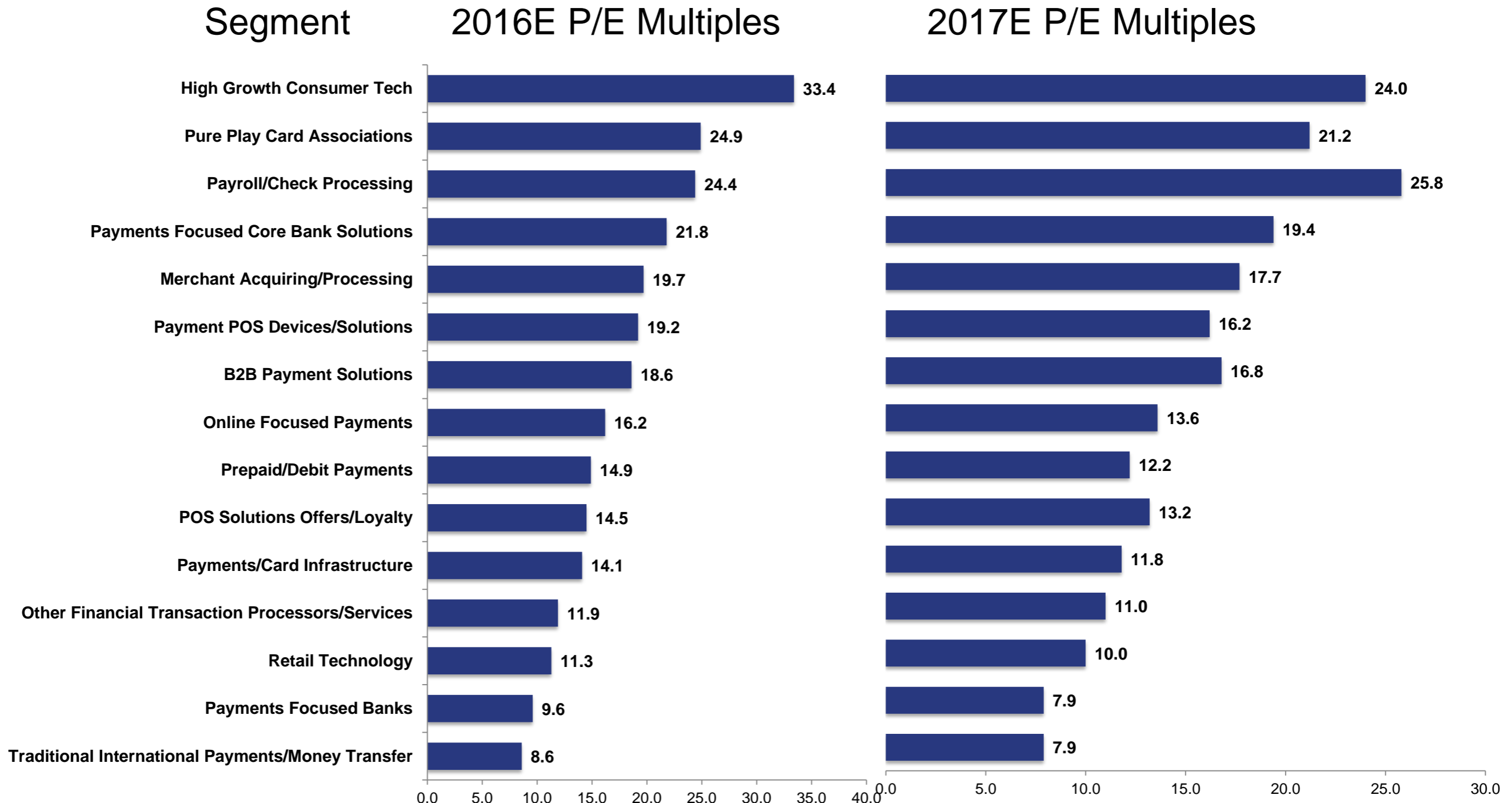
Reconciliation of GAAP to Non-GAAP Financial Measures

(Unaudited)

	<u>Twelve Months Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Reconciliation from Operating Income to Adjusted EBITDA:		
Operating income	\$ 946,877	\$ 2,245,007
Depreciation and amortization	496,368	40,953
EBITDA	1,443,245	2,285,960
Professional fees related to non-recurring items	315,903	-
Acquisition costs	20,000	-
Non-cash stock compensation expense (net)	1,111,194	291,980
Adjusted EBITDA	<u>\$ 2,890,342</u>	<u>\$ 2,577,940</u>
Calculation of Adjusted EBITDA margins:		
Revenues	\$ 14,380,459	\$ 13,395,131
Adjusted EBITDA	<u>\$ 2,890,342</u>	<u>\$ 2,577,940</u>
Adjusted EBITDA margins	<u>20.1%</u>	<u>19.2%</u>

Public Payments/Cards, Loyalty and E-Commerce Solutions Sector Universe

Public Comparable Universe Median P/E Multiples by Segment



Source: Financial Technology Partners, Wall Street Research, Reuters and Capital IQ, updated February 26, 2016