

# Payment Data Systems, Inc.

## Fourth Quarter and Year End 2016 Earnings Conference Call

Friday, March 31, 2017, 05:00 PM Eastern

### **CORPORATE PARTICIPANTS**

**Louis Hoch** - *President, Chief Executive Officer*

**Tom Jewell** - *Chief Financial Officer*

**Houston Frost** - *Senior Vice-President, Prepaid Card Services*

**Allyson Pooley** - *Investor Relations*

## **PRESENTATION**

### **Operator**

Good afternoon and welcome to the Payment Data Fourth Quarter and Year End 2016 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the “\*” key followed by “0.” After today’s presentation, there will be an opportunity to ask questions. To ask a question, you may press “\*” then “1” on your telephone keypad, to withdraw your question, please press “\*” then “2.” Please also note that this event is being recorded.

I would now like to turn the conference over to Allyson Pooley. Please go ahead.

### **Allyson Pooley**

Thank you, Andrea, and thank you and welcome to the Payment Data Systems’ fourth quarter and year end 2016 financial results conference call.

The earnings release which Payment Data issued earlier this afternoon is available on the investor relations website at [paymentdata.com/invest](http://paymentdata.com/invest) under news. On the call today are Louis Hoch, President and CEO, Tom Jewell, Chief Financial Officer and Houston Frost, Senior Vice-President of Prepaid Card Services. Management will provide prepared remarks and then we will open the call to your questions.

Before we begin, I would like to remind you that the comments on today’s call include forward-looking statements. Forward-looking statements can be identified by the use of such words as estimate, anticipate, expect, believe, intend, may, will, should, seek, approximate, or plan, or the negative of these words and phrases or similar words and phrases.

Forward-looking statements by their nature involve estimates, projections, goals, forecasts, and assumptions and are subject to risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements, including risks related to the closing of the proposed singular acquisition.

The realization of the anticipated opportunities from the proposed singular acquisition, management of the company’s growth, the loss of key resellers, the relationships with the automated clearinghouse network, bank sponsors, third party card processing providers and merchants, the loss of key personnel, growing competition in the electronic commerce market, the security of the company’s software, hardware and information and the compliance of complex federal state and local laws and regulations. These forward-looking statements speak only as of the date of this conference call and should not be relied upon as predictions of future events.

Payment Data expressly disclaims any obligation or undertaking to update or revise any forward-looking statements made today to reflect any change in Payment Data’s expectations with regard thereto or any other changes in events, conditions, or for circumstances on which any such statement is based, except as required by law. Please refer to the company’s SEC filings on the Investor Relations website for additional information.

And with that, I’d now like to turn the call over to Louis.

**Louis Hoch**

Thank you, Allyson, and welcome, everyone. Before I discuss our operating results for the quarter and the year, I would like to give a warm welcome to Tom Jewell in his new role as Chief Financial Officer, which he began in January of this year.

As you may recall, Tom joined our board in November of the last year, bringing over 35 years of business leadership experience focused on management, auditing, accounting, internal controls and finance. With his appointment as CFO, he has stepped down from our board of directors and we are in the final stages of a search for another independent board member to fill the open seats on our audit committee and compensation and nomination committees. Tom is an outstanding addition to our leadership team and we are delighted to have him on board.

With Tom on board and the other management changes made last year, we are better positioned than ever to continue our focus on accelerated sales and marketing campaigns for our revenue generating initiatives. Although the decline in revenues in 2016 was disappointing, our positive operating cash flow and positive EBITDA for the year was encouraging and points to our core strengths of our business model including our strong debt-free balance sheet and our \$4.1 million in cash.

We worked very hard throughout 2016 to broaden our marketing and sales channels and launch new multiple revenue generating initiatives that we expect will drive growth and transaction volumes and associated revenue in the upcoming quarters. I'm pleased to provide an update today on the number of these programs.

In our payments network, we focused on diversifying into new industries and vertical such as medical and dental clinics, property management and homeowners' associations and the municipalities and various non-profit segments. Churches and charitable organizations continue to be important vertical for us.

In the fourth quarter, we entered into a new vertical for us, the consumer mortgage loan servicing industry. We are pleased to announce that we have implemented several new mortgage servicers.

Also during the fourth quarter, we successfully implemented our first municipality customer for tax payments. We plan to leverage this initial implementation to capture more municipal clients that need to process payments for taxes, fees and fines. We are thrilled to have this new capability and believe it should create many opportunities for increased sales and increased transaction growth.

We continued to innovate our services offering with a new client-facing web application that allows customers to more easily manage their payments with enhanced security. We also rolled out in Apple iOS systems development kit that enables developers to easily integrate payment acceptance into their apps. During the third quarter, we completed the integration of our payments gateway into various regional debit networks to enable our PIN-less debit services.

Our existing customers are very enthusiastic about PIN-less debit and adoption rates are increasing rapidly month to month. We have significant runway ahead for this new product and are experiencing month-over-month increases in transaction growth. Also, we believe that we have a rich sales pipeline that is larger than ever before.

In addition to our organic growth initiatives, as I stated before, we are constantly evaluating strategic acquisitions that enhance or bring additional products and services or client engagements to our current model. Earlier this month, we announced our intent to acquire Singular Payments, a Fintech payments provider for merchants and healthcare and other verticals nationwide. We believe this important acquisition will quickly accelerate the growth, potential of our company and broaden our revenue streams.

Singular is primarily focused on custom software integrations of their flat rate payment processing offering and their proprietary simple-to-use electronic bill presentment and payment platform, which allows merchants to streamline the costly and labor intensive process of invoicing and collection.

The company was founded in 2009 and is led by industry veteran and visionary, Vaden Landers, The company has experienced rapid growth. In 2016, Singular processed over 2.5 million transactions worth over \$440 million in transaction dollars.

We intend to leverage this proven sales channel and the technology that Vaden and his team have built to better position us for the future. While we still have work to successfully complete, including finalizing the due diligence and executing a mutually agreeable purchase agreement, once and if properly integrated into our processing platform, Singular should provide significant incremental revenue to our company.

We believe this transaction is in alignment with our growth strategy and should provide enhanced value to our shareholders and we are hopeful the transaction will close by the end of May.

Now, I'll turn over the call to Houston Frost, to discuss the exciting prepaid card initiatives that he and his team have accomplished. Houston...

### **Houston Frost**

Thanks, Louis. 2016 was a very busy year for our prepaid card team, as we continue our mission to create the most innovative and forward-thinking consumer and incentive prepaid card product platform on the market. We expanded on the capabilities of Akimbo Now and we released a digital card platform for businesses that seek to launch their own products and services, leveraging the Akimbo Now technology.

The platform now enables real-time card provisioning to Apple Wallet, a first of its kind for gift, incentive and promotional cards. This technology allows the consumer to collect a gift card through email or a text message and then add that card directly to Apple Wallet in just a few taps on their phone. We also added support for Android Pay and Samsung Pay making our digital card platform the most flexible and capable in the industry.

Our first client on the digital card platform launched their product at Money 20/20 in the fall of 2016 and their solution leverages the instant provisioning of digital cards and reloadable cards to deliver coupons and rewards.

Since launch, we've seen rapid growth in digital card creation on our platform with well over 100,000 cards created in just the first few months of this year. We are extremely excited about how this technology is catalyzing change in the gift and incentive card industry and in the payment card industry more broadly. Many recipients of digital cards are being introduced to Apple Pay for the first time and have been delighted with the process and the ability to tap and

pay with their phone. Ultimately, we view this technology as transformational. The ability to deliver a card digitally that can be used at a physical point of sale portends a world without plastic cards.

In addition to the growth fueled by this digital card platform, we executed five processing and program management agreements last year with new clients and launched four new white-labeled prepaid programs. We anticipate the launch of several additional programs in 2017.

Finally, the team has also been working to reinvigorate our consumer prepaid solution - the Akimbo Card. In the next couple weeks, we will be releasing a new mobile app, a new web app, and a new website that reflects the products updated marketing positioning and messaging. The team has dramatically simplified the process to create a card for any household budget or allowance, and has implemented the real-time Apple Wallet provisioning capabilities, so that customers can begin to use their card immediately after sign up.

Akimbo's mission is to help organize household finances and promises a card for the modern household. We are very excited to see the results of expanded marketing efforts over the next few quarters.

With that, I will turn the call over to Tom to review the financial results. Tom?

### **Tom Jewell**

Thank you very much, Houston, exciting indeed. First of all, I am excited to be a part of the Payment Data System team. Right now, I am going to provide a brief review of the financial results for the fourth quarter and year before opening up the call for questions.

As Louis mentioned earlier, we continue to have a strong balance sheet with \$4.1 million in cash. We have no debt and have a clean capital structure. For the twelve months ended December 31<sup>st</sup>, we generated net cash from operations of \$0.8 million and we will continue to reinvest free cash flow into the business and strategic acquisitions.

First, I would like to give you a quick overview of the fourth quarter. Revenues in the fourth quarter were \$2.9 million, down 21% compared to the \$3.7 million a year ago in the fourth quarter. The decline was due to lower ACH and debit card processing fees. This was offset somewhat by our new PIN-less debit business that Louis that mentioned launched in October.

From a gross margin perspective, our margin was \$888,000 or 30.7% of revenue. That compared with \$1.3 million or 35.8% of revenue in the fourth quarter of 2015. The decline was due in part to our investment in the prepaid business that Houston talked about.

Our fourth operating loss was \$284,000 compared to operating income of \$137,000 in the fourth quarter of last year. This reflects higher cost of revenue and SG&A as percentage of revenue in 2016.

Our adjusted EBITDA for the quarter was \$205,000 compared to \$671,000 in the fourth quarter of last year. The net loss for the quarter was \$243,000 or \$0.03 per basic and diluted share compared to net income of \$165,000 or \$0.01 per diluted share for the fourth quarter of last year.

Now, let's take a quick overview of the year. For the year ended December 31, revenues were \$12.1 million, down 16% compared to \$14.4 million a year ago. Our gross margin for the year

was \$3.8 million or 31.3% of revenue. This compared with \$5 million or 34.5% of revenue in 2015.

Our operating loss for 2016 was \$1.4 million, compared with operating income of \$947,000 in 2015. The decline this year was due to lower gross margin and higher SG&A cost as a percentage of sales. Net loss for the year 2016 was \$1.2 million or \$0.15 per basic and diluted share, down from net income of \$1 million in 2015, or \$0.08 per diluted share.

In closing, despite the challenges of 2016, we remain a healthy company, debt free and generating positive cash flow. We are well positioned for future growth.

Operator, we will now open the call for questions.

## **QUESTION AND ANSWER**

### **Operator**

We will now begin the question and answer session. To ask a question you may press “\*” then “1” on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press “\*” then “2.” At this time, we will pause momentarily to assemble our roster.

Our first question comes from Ron Nisser a private investor. Please go ahead.

### **Ron Nisser**

Hello Louis.

### **Louis Hoch**

Hi, Ron.

### **Ron Nisser**

Congratulations, on staying debt free. For those who haven't been to your headquarters like I have, your building looks to be out of the flood zone, earthquake resistant and in an ideal location for expansion. You can probably add something to that as we progress, but to me digital is key and I think you are on track with everything that you can do at this juncture waiting on rules and regulations that will govern the paying with plastic and prepaid industry. Anybody that's read your biography knows you have what it takes to build and run multilingual call centers. Will we see the day when US consumers can dial-up 877 PDS pays to confirm purchases were made from Alibaba India and/or others, and that they made it through the ACH uncompromised? Again, this is forward thinking, but can you comment on any of what I've mentioned?

### **Louis Hoch**

Well, the majority of our payments network operates only in United States and as of now don't have any plan to go elsewhere. Our prepaid cards, the majority of them can be used outside the United States and we do see international transactions. But other than that we are pretty much US focused and there is more than enough market share and transactions in the United States to keep us happy for a long time.

### **Ron Nisser**

I understand, I just, I know that you had an endeavor in the past with cards that were centered going to Mexico, and when I, last time I talked to Mr. Long, he said that he couldn't make the

complete loop, they were still working on it. So that's the reason I brought that up about global networking. Anyway, I will hang up on that and listen to the rest of the questions, if any. And wish you the best and hope you can hit another hole in one when it comes to networking with plastic and iRemote Pay.

**Louis Hoch**

Thanks Ron.

**Ron Nisser**

Thank you.

## **CONCLUSION**

**Operator**

Again, if you have a question, please press "\*" then "1." There appear to be no further questions at this time. This now concludes our question and answer session. The conference has now also concluded. Thank you for attending today's presentation. You may now disconnect your lines.