

Payment Data Systems, Inc.

Q1 2017 Earnings Conference Call

Monday, May 15, 2017, 05:00 PM Eastern

CORPORATE PARTICIPANTS

Louis Hoch - *President and Chief Executive Officer*

Tom Jewell - *Chief Financial Officer*

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

Allyson Pooley - *Financial Profiles*

PRESENTATION

Operator

Good afternoon and welcome to the Payment Data Systems' Q1 2017 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. Please note this event is being recorded.

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

Allyson Pooley

Thank you, Austin. And thank you and welcome to Payment Data Systems first quarter 2017 financial results conference call. The earnings release which Payment Data issued just before this call is available on the investor relations website at 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'll open the call up for your questions.

Before we begin, I would like to remind you that 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 retailers, 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 electronics commerce market, the security of the company's software, hardware and information and 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 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 would now like to turn the call over to Louis.

Louis Hoch

Thank you, Allyson, and welcome everybody. It's been a short time since we've held our last earning's call at the end of March, so our update today will be brief. During the first quarter, we continued our focus on accelerating sales and marketing campaigns for our key revenue generating initiatives.

Although, revenue declined year-over-year, revenues remained stable on a sequential basis, and we were encouraged by the increases in our prepaid revenues as a result of our standout product enhancements as well as solid momentum in our PINless debit services which we introduced late last year.

Our operating expenses were down on an absolute basis when compared to a year ago. We continue to generate cash flow from operations and our balance sheet remains strong with a cash position of \$3.6 million and no debt as of March 31st. Above all, we remain diligently focused on our sales and marketing campaigns for our key revenue generating initiatives and today I'm pleased to share some updates.

In our payment's network, we were encouraged by the growth of transactions and dollars processed from our new PINless debit service offering, and our anticipating future growth through the adoption of this product by more of our existing clients. It's a higher margin product for us than our ACH offering and we believe clients will move from traditional ACH to PINless due to its real-time capabilities.

ACH processing continues to be our core business and we have a strong sales pipeline and we continue to expand our ACH capabilities by bringing on more sponsoring banks to provide our customers with increased flexibility and risk mitigation services.

Now, I would like to turn over the call to Houston Frost to give us an update on our prepaid business. Houston?

Houston Frost

Thanks Louis. In prepaid, we continue to focus our sales, marketing and product development efforts on three core solutions: corporate gift, incentive or promotional cards; turnkey prepaid card program management and processing services; and our direct to consumer product, Akimbo. The prepaid card division's revenues increased by nearly 60% in Q1 2017 as compared to Q4 of 2016, primarily as a result of our digital card platform that we launched at Money 20/20 last fall.

As previously discussed, this new platform powers a new way to issue and deliver prepaid cards and we've employed the technology across all of our corporate and consumer card solutions and services.

Corporations can deliver promotional reward cards electronically and consumers can use this card for purchases immediately both in-store and online. In addition, our consumer customers can receive a digital Akimbo card in real time now through the Akimbo app that allows them to engage with the product before a plastic card arrives in the mail.

Specifically, we have seen more than 160,000 digital cards created since the beginning of this year. While this growth has been largely driven by a single client, it demonstrates the viability and scalability of the platform, and we look to leverage this successful rollout to increase sales of digital gift, incentive and promotional cards.

We have three new White Label prepaid programs set to launch in Q2 2017 and our sales pipeline for prepaid card program management processing services is larger than ever. We expect to launch at least six additional White Label or co-branded card programs this year and

these programs should account for a significant portion of the prepaid card division's revenue in 2017.

As an update from the last earnings call, the new Akimbo card website, web and mobile apps are now live. The updates represent the most significant product enhancements and branding updates since Akimbo's acquisition in December of 2014. In addition, we began to ramp up our marketing efforts for this flagship consumer product.

In our first few weeks we've seen the enrollment rate for the Akimbo card double and we plan to increase our efforts in June. We fully expect these ongoing marketing efforts will revive the consistent month-over-month growth Akimbo experienced prior to the acquisition.

I'll turn it back over to Louis now for additional updates on the company.

Louis Hoch

In corporate news, in March we announced our intent to acquire Singular Payments, a Fintech payments provider for merchants in healthcare and other niche markets nationwide. We believe this is an important acquisition and is well aligned to our growth strategy and will dramatically broaden our revenue streams. We are in the final stages of due diligence and remain hopeful that we will be able to close the transaction in the near future.

Last week we announced addition of a new Board member. Mr. Brad Rollins has agreed to join our Board of Directors and will serve on the nomination, compensation and audit committees. He's the Chief Executive Officer of Dahill Office Technology and his relationship should help position our company to gain new revenue opportunities. The addition of Mr. Rollins to our Board brings our company back into compliance with NASDAQ corporate governance rules as he joins as an independent member. Welcome to our team, Brad.

We filed our proxy statement on April 27th and will hold our 2017 annual meeting of shareholders on Tuesday, June 6th, 10 AM, central time at the Hilton Garden Inn, San Antonio Airport. We look forward to seeing many of our shareholders at that meeting.

Now, I will turn the call over to Tom for a financial review.

Tom Jewell

Thank you, Louis and good afternoon. I will provide a brief review of our financial results before we turn the call over for questions.

As we discussed last quarter, we continue to have a strong balance sheet with \$3.6 million in cash. We don't have any debt and have a clean capital structure. For the first three months of 2017, we generated net cash from operations of \$238,583.

For the first quarter of 2017, our revenues were \$2.8 million down 13% from the first quarter of last year. This was the result of a decrease in the volume of ACH processing, credit card and return transactions processed as well as some customer attrition.

The revenue decline was somewhat offset by an increase in our new PINless debit cards which launched last October as Louis mentioned. Gross margin dollars came in at \$942,799 or 33.5% of revenues. This compared to \$1.1 million and 33% of revenues in the first quarter of last year. We are very pleased to see flat gross margin as a percentage of revenue.

Our first quarter operating loss was \$321,938 compared to an operating loss of \$46,413 in the first quarter of last year, and this difference reflects higher SG&A as a percentage of revenue.

On an adjusted EBITDA basis, we were positive \$114,527 compared to \$465,499 in the first quarter of last year. Net loss for the quarter was \$286,583 or \$0.03 per basic and diluted share, compared to a net loss of \$32,002 or 0 cents per basic and diluted share for the first quarter of last year.

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

Operator, we will 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."

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

Ron Nisser

Hello Louis. This is Ron. Sir, I have followed Michael Long and you since 1998, and in my opinion, your company...the company looks stronger than it ever has in the past. That being said, I have a couple of quick questions here that I am sure you can answer. First of all, you made mention to another Board of Director being nominated and PYDS and the symbol SSID non-compliance are displayed at online brokerage firms, how long will symbol SSID remain?

Louis Hoch

Well, I am not sure what SSID refers to, but I assume that it means because we were short a Board Director and temporarily out of NASDAQ compliance.

Ron Nisser

That's correct and I would like to see it disappear soon as possible, that's the reason I brought it up.

Louis Hoch

Well, we have made NASDAQ aware that we've added an independent Board Director and I'm sure that they'll act on that very quickly.

Ron Nisser

Okay, if they don't, I will call it to my brokerage house attention. The electronic bill payment processing and handling, it needs all the third party help and security it can get, can, will, must Payment Data Systems phone number 877 PDS PAYS adopt digital voice recognition that helps verify accounts and guards against hack attacks and ransom worms?

Louis Hoch

I'm not sure how voice has to do with hacking, but, I can assure you all of our systems are very secure, they exceed industry standards, all of our data is encrypted, and I don't know what else

we can do besides remain diligent and focused on security, and keeping everybody's credit card numbers and bank accounts secure.

Ron Nisser

I know you're doing all you can, and I know that the payment industry is going through a sea change and there's talk...of course not talk but there's going to be revisions or should be, sometime in the foreseeable future of rules and regulations that govern paying with plastic, the paying with the plastic industry. Also, I would like to see you work with encrypted email transaction confirmation, so that once money is transferred from A to B in between and through the automatic clearing house customers, when they get an email that's encrypted, so they can deter some of these ransom worms and hack attacks. That being said, I'll hang up now, I have no other questions, keep up the good work, and I believe you're on track and I wish everybody the best.

Louis Hoch

Thank you.

Ron Nisser

Bye.

Operator

And again, if you would like to ask a question please press "*" and then "1" again that's "*" and then the number "1" if you would like to ask a question. At this time, I'm showing no further questions. I would like to turn the floor back to Louis Hoch for any closing remarks.

CONCLUSION

Louis Hoch

Thank you everybody for participating in today's call. That'll conclude our call for Q1.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.