

Usio, Inc.

Earnings Call for the First Quarter of Fiscal  
2023

Wednesday, May 03, 2023, 4:30 PM Eastern

**CORPORATE PARTICIPANTS**

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

**Tom Jewell** - *Senior Vice President, Chief Financial Officer*

**Greg Carter** - *Executive Vice President of Payment Acceptance*

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

**Paul Manley** - *Senior Vice President, Investor Relations*

## PRESENTATION

### Operator

Good afternoon, and welcome to the Usio Earnings Call for the First Quarter of Fiscal 2023. All participants will be in a 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 phone, to withdraw your question, please press "\*" then "2." All participants on this call are advised that the audio of the conference call is being broadcast live over the internet and is also being recorded for playback purposes. A replay will be available shortly after the end of the call for May 17, 2023.

I would now like to turn the conference over to Paul Manley, Senior Vice President of Investor Relations. Please go ahead.

### Paul Manley

Thank you, and thank you everyone for joining our call today. Welcome to Usio's first quarter fiscal 2023 conference call. The earnings release, which we issued today after the market closed, is available on our website at usio.com under the investor relations tab.

On this call today are Louis Hoch, our Chairman and CEO, Tom Jewell, Senior Vice President and Chief Financial Officer, Greg Carter, Executive Vice President of Payment Acceptance, and Houston Frost, Senior Vice President of Prepaid Services.

Let me remind our listeners that certain statements made during the call today constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities and Litigation Act of 1995 as amended. Such forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements.

These risks and uncertainties are described in our earnings press release and in our filings with the SEC. The forward-looking statements today are made of the date of this call, and we do not undertake any obligation to update these forward-looking statements. Management will provide prepared remarks now and then we'll have a question and answer session.

But let me lead off with the highlights from this afternoon's release. I'm pleased to report another quarter of record results with first quarter revenue of 18% and our 11th consecutive quarter of revenue growth, and beating analysts' estimates. We also reported a quarter of positive adjusted EBITDA, which improved by nearly \$1.4 million from the same quarter of 2022.

Adjusted EBITDA is a non-GAAP financial measure and our earnings release includes a reconciliation of adjusted EBITDA to GAAP operating income. We continue to be in excellent financial condition to support our growth objectives for the year.

Last quarter, we told you that we are entering fiscal 2023 with strong momentum, thanks to a strong 2022 with revenue growth that has already accelerated, compared to that last year. And, with many new exciting pipeline opportunities, we have established a firm foundation to meet our 2023 financial guidance.

Now, I will turn the call over to Louis.

**Louis Hoch**

Thank you Paul, and welcome everyone. As Paul noted, I'm pleased to report another record quarter driven by continued card and output solutions growth. Also contributing to our strong quarter was record prepaid performance from the strength of residual revenues from expiring card programs. This spoilage will continue throughout 2023 and end in 2024. Once again, our results demonstrated the benefits of our diversified business strategy, diversified in the markets that we serve and the payment channels that we offer.

Two programs I'd like to highlight that have us excited are MoviePass and LA County. Both have the potential to be transformative. Due to LA County being extremely pleased with our performance to-date, they're expanding their engagement with us. Our success has also drawn the attention of other large counties across the country with similar programs.

MoviePass is continuing to see positive momentum, as well as, is scheduled to launch their service nationwide in the summer, while both programs contributed to our first quarter performance, with LA County's revenues benefiting multiple Usio business units, we expect them to be a part of our future growth story, with reports of MoviePass' recent partnership with Walmart being a pleasant surprise.

As you can see from our ACH results, we're comparing against strong volume from Voyager in the first half of last year. However, our relationship with Voyager is essentially being completely wound down to their bankruptcy. Adjusting for Voyager, ACH would have shown year-over-year growth in the first quarter, and we expect outright ACH growth in the second half of the year. Our output solutions business grew 26% in the quarter and \$1 million sequentially, and it was all organic.

We believe that output solutions can continue to deliver strong growth by focusing on programs that offer attractive, reoccurring revenue characteristics like printing and distributing statements, as well as selling more integrated disbursement solutions through check grading that is required for our consumer choice disbursement platform.

In particular, I think there is a tremendous opportunity in expanding our electronic bill presentment and payment capabilities. And we are working on strategies to more aggressively pursue these opportunities. Now that our prepaid incentive programs sold in previous years are coming to expiration, we are now earning enhanced breakage and spoilage.

This has been beneficial to our overall effort to improve profitability. In the first quarter, margins were up over 300 basis points, while SG&A was up less than \$100,000 compared to the first quarter a year ago. This enabled us to sustain positive adjusted EBITDA, generate strong cash flow, and reach positive GAAP earnings per share. Since we primarily serve recession-resistant markets, we are not overly concerned about any economic slowdown.

In fact, if the economy slows, many of our businesses could generate even better growth. Our pipeline across all segments continues to be the strongest in the company's history. We have large opportunities in prepaid, LA County-type opportunities with other municipalities and output solutions, and new payback deals such as recently announced integration with Microsoft's Business Central platform, which have great revenue potential.

This is one of the best quarters in Usio's history, not only from record financial performance, but also because of the success of penetrating new markets and building new relationships across all of our businesses. This is going to be an extremely exciting year in which we believe we will

achieve our top-line guidance and expand our foundation in these rapidly growing markets for even greater success in the future.

And now I'd like to turn the call over to Houston Frost.

### **Houston Frost**

Thank you Louis, and thank you to everyone participating in the call this afternoon. The first quarter, card-issuing revenues were up 74%, primarily attributable to the breakage revenue earned on the New York City COVID Incentive Program. In the year-ago quarter, we were in the heart of this program, which is why our year-over-year volume, transaction, and purchase activity was down.

Importantly, on a sequential basis compared to the fourth quarter, both load and purchase volumes were up as we continued to build our underlying business. The card-issuing business continues to grow and solidify its relationships. We are keeping up with our clients launching general funds disbursement programs, guaranteed income programs, and corporate expense programs.

The implementation team has been particularly busy with clients employing our remote authorization service. This service powers deeply integrated FinTech, enabling card programs like Movie Pass. Speaking of Movie Pass, their beta customer transactions have been ramping up, and we are expecting their public launch this summer.

In true Hollywood style, the paparazzi published an unofficial piece discussing a potential Walmart Movie Pass partnership. To reiterate Louis's comments earlier, demand for solutions that offer recipients additional choice in how they receive their funds continues to increase. Our team is refining the service, which currently offers physical and virtual debit cards, ACH, push-to-debit, and checks. It is a flexible and powerful solution that leverages Usio's diverse payment services. With that, I'd like to turn the call over to Greg Carter.

### **Greg Carter**

Thank you Houston, and good afternoon everyone. It was another record quarter in card, with revenues up 8% on a similar 8% increase in dollars processed and a 24% increase in transactions. Results were once again led by the strength of our flagship PayFac business, where revenues advanced 27% on a 30% increase in volume and a 31.4% increase in transactions processed.

All were record performances. So we had a really good first quarter with good trajectory into the second quarter. It's just a continuation of what we've talked about before. Our efforts and model deliver the steady growth we have been discussing. In the call just a few short weeks ago, we mentioned that we had both a strong January and February driven by ISV growth, as well as the addition of new ISVs that began processing immediately.

Subsequently, it was also a record March. We also had 38 ISVs in implementation at the beginning of the year. And we are focused on industries such as healthcare, legal, and certain field service applications, which are generally recession resistant, and as the results demonstrate, have strategically paid off.

I'm very excited about the relationship we just announced with Suite Engine, an important element of the Microsoft Dynamics environment, essentially Microsoft's CRM solution. This program provides large, sophisticated enterprise customers the ability to facilitate payments

without having to leverage a third party payments application outside the MS Dynamics environment. We were introduced to Suite Engine by one of our customers at a trade show last year, who was using technology from both companies. And Suite Engine said, if we can do the same for them, then they want to be a Usio ISV partner.

So even though they are considerably larger than our average ISV serving Fortune 500 clients, they selected the Usio for the same reasons as everyone else. Our technology, our customer service and our ability to turn the electronics payments **to** traversing their system into a revenue stream.

Clearly, participation in trade-shows is paying dividends and my team and I continue to have a significant presence at these events. We continue to invest to broaden and strengthen our offering. For instance, we will be adding another physical terminal provider as well as another backend processing partner to serve a more diverse set of merchant category codes. All in all, it's been a strong start to the New Year. We are looking forward to the addition of Suite Engine and the imminent completion of our other in-process implementations.

With that, I'd like to conclude my remarks and turn the call over to Tom Jewell, our Senior Vice President and Chief Financial Officer to discuss our financial results.

### **Tom Jewell**

Thanks Greg, and welcome everyone. Thanks again for joining our call today and for your interest in Usio. In summary, revenues were up 18%, driven by strong growth in prepaid and output solutions. Credit card revenues were up and ACH and complementary services were down primarily as a result of the Voyager bankruptcy.

Gross profits were a quarterly record for the second consecutive quarter and margins expanded 370 basis points from a year ago. The gross margin improvement reflects a higher contribution from breakage and spoilage as well as strong margins from output solutions.

Selling, general and administrative costs were up 2% from the year-ago period. For the second consecutive quarter, we generated over \$1 million in non-GAAP adjusted EBITDA. Non-GAAP adjusted operating cash flows as reflected in our earnings release in 10-Q was \$1.3 million for the quarter up from \$0.5 million in the same year-ago period. Our cash increased by \$1.1 million in the quarter reaching \$6.7 million as of March 31, 2023.

With that, I will turn the call back to the operator to conduct our question and answer session.

## **QUESTION AND ANSWER**

### **Operator**

We will now begin the question and answer session. To ask a question, you may press "\*" then "1" on your telephone keypad. 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 the roster.

And our first question comes from John Hickman of Ladenburg. Please go ahead.

### **John Hickman**

Hi, can you hear me okay?

**Louis Hoch**

Hi John.

**John Hickman**

Great quarter. Thanks for beating my numbers. Could you tell me a little bit OPEX was pretty flat, do you expect it to be pretty flat for the rest of the year?

**Louis Hoch**

Was the OPEX the question?

**John Hickman**

Yes.

**Louis Hoch**

Yes. It should be very flat.

**John Hickman**

Okay. And could you give us a little guidance of our gross margins?

**Louis Hoch**

We'd like to be in the mid-20s.

**John Hickman**

By the end of the year?

**Louis Hoch**

By the end of the year.

**John Hickman**

Okay. So I'm a little bit confused about Movie Pass. Is there a....do we have a deal with Walmart, or was that just somebody jumping the gun or is that a potential deal or a real deal?

**Louis Hoch**

Movie Pass is not...can you hear me, okay?

**John Hickman**

Yes

**Louis Hoch**

Movie Pass has not made any official announcement, so we'll just leave it at that. It's obviously Movie Pass's business and we'll wait for their official announcement.

**John Hickman**

Okay. I take it. As long as I'm talking to Mr. Frost, could you give us a little more guidance about like how you are making...what the pipeline looks like for how you are making up for the, you know, those one-time programs like the New York COVID vaccination program because if you did 10 million in like residual [indiscernible] how do you make that up next year?

**Houston Frost**

Well, we continue to sell card programs, both recurring and one-time low card programs. We also continue to add new relationships. I think when you go back to kind of 2020, 2021, those

were years where we added just around a 100 clients. I think we even exceeded that in 2020 and then we were around the same number, you know, last year. So we've been adding around 100 clients a year and we'd like to keep that pace. It's a live range in terms of revenue on these clients. We lighted up with one that's, you know, bringing 20,000 in annual revenue and we end up with another client that could do 1 million in annual revenue. The diversity of the programs has continued to increase. So guaranteed income programs has been one. We hope to have some announcements on some healthcare-related programs.

We've also seen a substantial and noticeable increase in the volume and activity in our COVID expense, which is exciting because that's actually helped with margins, we earned higher interchange on the volume on this corporate expense spends. So, I think we've got a really good pipeline. We continue to build the base of this business and you know, we sure hope the results will show that. You know, we are likely to see a bit of a peak in that fee income, I think this quarter or next quarter, but, by and large, the line of business is growing every month and every week with new implementations and programs.

**Louis Hoch**

And John, don't forget the residual spoilage income as part of our business model and it's grown year-over-year, every year for the last five years. So, you know, it's something we are focused on.

**Houston Frost**

The card issuing of prepaid business has really matured over the last few years and it's a real business and it continues to mature, like I said, every month with new implementations and partnerships.

**John Hickman**

Okay. Louis, just one last question. So, you've [indiscernible] issue from last spring now, is that true?

**Louis Hoch**

I'm sorry, you broke up again. Can you ask the question?

**John Hickman**

Is it true that you anniversaried the Voyager thing [indiscernible] now that you are into the second quarter of 2023?

**Louis Hoch**

So Voyager bankruptcy I believe January 1<sup>st</sup> of last year and so they stopped processing about that same time. We did some residual stuff for them, but that was minor.

**John Hickman**

Yes, but on a year-over-year basis. That should be behind us, right?

**Louis Hoch**

After Q2.

**John Hickman**

After Q2, okay. Okay. Thanks. That's it from me.

**Louis Hoch**

Thank you.

**Operator**

The next question comes from Gary Prestopino of Barrington Research. Please go ahead.

**Gary Prestopino**

Hey, good afternoon all. Could you...do have what the total payment dollars processed were last year in Q2? I am sorry Q1. I am ahead of myself here. I am just...you say it was down to 1.23 billion this quarter but what was last year's Q1?

**Louis Hoch**

We can pull that number and send it to you. But the Q1 number of last year was obviously inflated by crypto processing. Crypto payments average ticket is \$500...

**Gary Prestopino**

Right.

**Louis Hoch**

So they were part of those dollars. But you got to be careful when you're looking at dollars, because our metrics, financial metrics can still do well if dollars go down, but transactions go up and that's what we saw last year. Overall dollars for the year were down, but transactions were up and of course, we did really well growing the company.

**Gary Prestopino**

Yes, just as a frame of reference there and then, I just wanted to get an idea, when you're talking about ACH electronic track check transactions were down, dollars processed were down. Were you doing those kinds of transactions for Voyager? I was under the assumption you were just doing ACH switch transactions for Voyager?

**Louis Hoch**

I don't see the difference between what you just described. Maybe I'm missing your question, but all we did for Voyager was ACH. We did debit checking and savings accounts and fund the Voyager. So it's in the ACH numbers, now ACH is growing year over year, if you take out the Voyager traffic.

**Gary Prestopino**

Okay, it must just be semantics with what I'm thinking and what you're actually putting in here. No problem there. Greg, did you give the growth in the pay pack revenue in the quarter? I tried to write down what you said, and I couldn't get it all.

**Greg Carter**

There was 27% for pay pack revenue.

**Gary Prestopino**

Okay, that's great, right. And then maybe could you elaborate a little bit on this new, relationship with Microsoft? I'm unfamiliar with this, I really want to understand it because obviously the reach of Microsoft is very large. And how does this work and could this be something where you're just going to get a ton of processing volume once this thing starts ramping up?



**Greg Carter**

Yes. The Suite Engine essentially facilitates a plug in that now allows these enterprise accounts to utilize the Usio payments environment. So, if you look at streamlining these implementations that we've talked about for the last several years, so those organizations that use Microsoft, the dynamics environment, their speed to payment processing is substantially reduced by using that plug in that Suite Engine facilitates.

**Gary Prestopino**

And Microsoft the central is like QuickBooks on steroids, it's used by bigger organizations. So you can go to the plug-in library now and choose Usio as a payment option.

**Greg Carter**

Unfortunately, we have a pipeline of accounts that are in queue as a result of that technology and relationship. So we're real excited about that.

**Gary Prestopino**

Okay, and maybe I'll talk to you about this offline because again, I've never heard of this. I don't understand it. I'm trying to understand it.

**Greg Carter**

Sure, happy to do so.

**Gary Prestopino**

What it can bring to you, it just seems large. And then lastly, Louis, you did say you expanded your engagement with LA County. Could you elaborate a little bit on that, please?

**Louis Hoch**

Yes, so we've been printing notices for fees and fines. Had a lot of success with that and they came back to us and said "hey, we've got all these overpayments". So when somebody has \$100 parking fine and they send us \$110, we've got to send back the \$10 and they said, the only efficiency way we can do that is via check and so we are printing a whole bunch of checks now for LA County?

**Gary Prestopino**

Okay. It's a nice short of incremental business from what you are doing right now with LA County.

**Louis Hoch**

It is, and it shows the trust that we've earned in a few months of doing business with them.

**Gary Prestopino**

Okay. Thank you.

**Louis Hoch**

Thanks.

**CONCLUSION**

**Operator**

Once again, if you would like to ask a question, please press "\*" then "1". That will conclude our question-and-answer session. The conference has now also concluded. Thank you for attending today's presentation and you may now disconnect.