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GreenBox POS

First Quarter 2022 Earnings Conference Call

May 16, 2022

CORPORATE PARTICIPANTS

Ben Errez, *Chairman*

Ben Chung, *Chief Financial Officer*

Min Wei, *Chief Operating Officer*

CONFERENCE CAL PARTICIPANTS

Howard Halpern, *Taglich Brothers*

Chris Sakai, *Singular Research*

Austin, *ROTH Capital Partners*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the GreenBox POS First Quarter 2022 Earnings Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following Management remarks, the conference will be open for questions. The earnings press release accompanying this conference call was issued at the close of the market today. The quarterly report which includes the Company's results of operations for the three months ended March 31, 2022, was filed with the SEC today.

On our call today is GreenBox POS Chairman, Ben Errez; Chief Financial Officer, Ben Chung; and Chief Operating Officer, Min Wei.

I'd like to remind everyone that statements made on today's call and webcast, including those regarding future financial results and industry prospects, are forward-looking and may be subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the call. Please refer to the Company's regulatory filings for a list of associated risks.

The replay of this call and webcast will be available for the next 90 days on the Company's website under the Events section.

At this time, I'd like to turn the call over to Mr. Ben Errez, the Company's Chairman. Ben, the floor is yours.

Ben Errez

Thank you, Operator, and thank you, all, for joining us today for our First Quarter of 2022 Financial Results Conference Call.

Following up on the strong growth trajectory in 2021, the first quarter of 2022, the best quarter by volume of processing in the Company's history, was also highlighted by continued execution against several key strategic objectives that paved the way for our long-term growth.

We successfully completed the acquisition of Transact Europe, ushering GreenBox into a very attractive European payment market, and setting the table for our global ascension. By partnering with Cross River, a well respected financial technology infrastructure leader, we can bring to fruition our banking as a service solution, and materially enlarge the potential universe of customers to deliver our financial solutions to, while also expanding our solutions to all existing customers. With the purchase of Sky Financial's processing portfolio, we secured the large merchant base of approximately $1 billion in annual transaction volume and growing.

Operationally, we continued to make progress on improving our Executive Team and Board of Directors, putting the needed expertise and infrastructure in place for us to continue to scale.

With that, I'd like to elaborate on some of our key operating highlights from the quarter. As I've talked about previously, acquisition's a vital part of our long-term growth strategy. We look for select opportune targets to increase our processing volume, licencing assets, technology, and talent.

On that front, we had two noteworthy accomplishments; first, we completed our acquisition of Transact Europe, or, as we call it internally, TEU, which, considering the time and thoroughness of the Bulgarian bank regulatory review process, was no simple task. TEU enabled us to effectively deliver the advantages of our customers' payment solutions technology to European merchants. Several key strategic initiatives are ready to deploy to unleash the synergies and unlock the growth from this acquisition. For example, by adding card-present transactions, TEU can more effectively target the retail segment.

Incorporating alternative payment methods with partners in Europe will extend acceptance to include other regional card-issuers. The addition of banking and foreign exchange capabilities will provide value-add solutions for clients as well as another driver of revenue for GreenBox.

This substantial number of cross-boarder transactions in Europe makes for fertile ground to drive adoption from Coyni. Furthermore, by leveraging TEU licencing for our U.S.-based clients with capabilities to expand their business into Europe and vice-versa, there's a tremendous potential value for both existing and prospective customers on both sides of the pond. As we mentioned in our announcement, for its first full year of operation, Transact Europe is expected to contribute approximately $2 million to our Adjusted EBITDA, and we anticipate will be accretive in the first year.

We also announced the purchase of Sky Financial's merchant processing portfolio to secure a large processing volume that was already integrated in our technology. Sky is a big part of our 2021 success and contributed significantly to our revenue during the year. The acquisition accomplishes two very important things: by bringing a large merchant account portfolio in-house, we eliminate the commissions cost previously incurred; second, it allows GreenBox to own these customer relationships, securing a considerable portion of our processing volume base, and offer additional revenue-generating solutions to this same customer base.

Establishing strategic partnerships with leading tech-forward financial companies is also an integral part of our growth strategy. In the first quarter, we announced such partnership with Cross River, a very well-respected financial technology infrastructure company. The licencing partnership is the initial step towards a banking-as-a-service platform and represents a fantastic opportunity for us to significantly expand our potential universe of clients while allowing us to offer existing merchant accounts. More services, including banking solutions, the Cross River partnership single-handedly closes the gap towards GreenBox becoming a vertically integrated end-to-end financial technology solution. While in the early innings of that partnership, we expect great things from it, and over time believe it will lead to a substantial revenue generation.

Operationally, we have grown our Executive Management Team and Board of Directors, has continued to evolve. In the first quarter we welcomed Min Wei, from which you will hear shortly, as our new Chief Operating Officer. Min has an extensive background in operational efficiency at growing technology companies on a global basis. He will be vital for us, given our expansion plans, in order to scale efficiently.

We also added to our Board with the appointment of Adele Hogan. Adele is an experienced and well-respected from transaction lawyer. She has already been material to our recent acquisitions, and as part of our securities compliance team, and will be important contributor to any M&A and dividend plans to come.

For an update on Coyni, we're quite pleased by the recent public beta test of our first (phon)-generation development product. As we work to scale up its application while ensuring quality control, we expect Coyni to be an important growth driver for us in the years to come, and fully committed to the lucrative opportunity it represents. Min will comment on this more in a few minutes.

Now, I'd like to turn the call over to our Chief Financial Officer, Ben Chung, to walk through our financial results.

Ben Chung

Thank you, Ben.

I will limit my portion to key results of our financials. A full breakdown is available in our 10-Q filing and in the press release that was distributed after market close today. Please note that I'll be referring to Adjusted EBITDA and other non-U.S.-GAAP measures, and for the calculation of Adjusted EBITDA and other non-GAAP measures, please refer to the MD&A, which is available in our 10-K—10-Q filing, which you can find on our website under SEC filings.

Net revenue increased by $140,000 or 3.1% to $4.9 million for the three months ended March 31, 2022, from $4.7 million for the three months ended March 31, 2021. The increase in revenue was due to the increase in processing volume but offset by higher fees to gateway and ISOs.

Gross profit in the first quarter of 2022 was $2.3 million or 47.6% of total net revenue compared to gross profit of $3.2 million or 66.4% of total net revenue in the same quarter a year ago. The decrease in gross profit was primarily due to increased cost of revenue resulting from higher processing fees paid to gateways and commission payments to ISOs.

I would like to now discuss our operating expenses. We categorize our operating expenses into two categories: normal operating expenses and non-cash operating expenses. Normal operating expenses include marketing, research and development, payroll, professional, and general expenses, while non-cash operating expenses include stock compensation expenses for employees and for services, including depreciation.

Our normal operating expense was $7.8 million and $2.3 million for Q1 2022 and 2021, respectively, an increase of $5.5 million, primarily due to an increase in general and administrative expense related to payroll for increase in number of employees due to growth, and also related to our heavy investment in research and development to improve our technology and headcount to support operations and sales growth. Our non-cash operating expenses primarily relate to stock compensation expense for employees and services.

We ended Q1 2022 with a loss from operations of $6.2 million, compared to our loss of $9.4 million in the same quarter of prior year. If our non-cash operating expenses such as stock compensation expense for employees and services and depreciation are added back we had a net loss from operations of $5.4 million for Q1 2022, and a net income of $0.9 million for the same quarter prior year.

I would now like to go over our other expense category. Our other expense increased by $11.1 million to $15.1 million for Q1 2022 from $4.0 million for Q1 2021. Interest expense increased slightly in Q1 2022 as compared to Q1 2021, due to the $100 million convertible note issued in November 2021. Amortization of discount, fees (inaudible) and the fair value of derivative liability associated with the note were also contributing factors. Furthermore, the Company changed its fair value derivative liability expense of $7.7 million for Q1 2022, and none in previous year same quarter.

The Company sustained a net loss in the first quarter of 2022 of $21.3 million, or $0.51 per basic and diluted shares, compared to a net loss of $13.3 million or $0.38 per basic share and diluted shares in the same quarter a year ago. The increase in net loss was primarily due to an increase in change in fair value of derivative liability, an increase in research and development, general and administrative related to payroll and payroll taxes, and professional fees, as we continued to add SaaS and infrastructure related to our growth and being a public traded company.

Adjusted net income, a non-GAAP financial measure, for the first quarter 2022 was $5.4 million of net loss. You can find a reconciliation in our earnings press release.

I'll now turn the call over to Min to speak about our outlook for the rest of the year.

Min Wei

Thank you, Ben.

Over the past three months, I enjoyed the opportunity of working with the rest of the GreenBox leadership team, and we started the process of our intermediate term and longer-range planning. This is particularly important as 2022 is a transitional year for GreenBox, as we are finalizing our Coyni platform for a public introduction and are getting on with platform monetization.

As a result of this effort, we have better visibility in our quarterly operating performance and have verified our path as follows: Q1, we completed Coyni V1 platform development and prepared it for a beta pilot with select external users. We revamped our sales and business development organization and established a systematic approach to sales pipeline development and management. We started our efforts in marketing and support operations in preparation for the Coyni public beta pilot.

Q2, we introduced in April the Coyni V1 platform to the public for beta, and I wanted to take the chance to thank those for participating in the beta. We have received since many positive feedbacks. Beta pilot feedbacks are being analyzed, prioritized, and incorporated into our Coyni release roadmap. We are enhancing our customer onboarding and support processes. In addition, we are also working on incorporating our Coyni platform as part of our FX and international payments ecosystem this quarter. More to come in the coming number of months.

Q3, we expect to have our Coyni platform with more enhanced merchant functionality ready to go, and with increased business volume both domestically and internationally, we anticipate to start generating positive cashflow in that quarter.

Q4, with our identified business opportunities to materialize, we expect to see significant transaction volumes through our platforms, and further improve top line and bottom line results. As a result of that, Q4 will be the best quarter of the year.

As we continue to drive operational improvement, we are expecting to see the following metrics:

Process volume. Q1 2022 has been the best quarter ever for the Company, as Ben mentioned earlier. We plan to continue this uptrend and set new volume records in each of the subsequent quarters this year.

Net revenue from processing in Q1 is flat, and Q2 will be flat or slightly up as we prepare to ramp up volume through our platform. We expect to see a solid ramp up in Q3 and Q4.

Adjusted pro forma EBITDA. Q1 is negative as we invest in product development, sales and marketing resources, and Q2 will be also. We budgeted approximate $12 million in additional structural and operational investment throughout FY'22 as a transition year, and seeing a close to break even EBITDA year.

We remain confident in our outlook to achieve at least $4 billion to $6 billion in processing volume in 2022.

With that, I'd like to now turn the call back over to Ben before we begin our Q&A.

Ben Errez

Thank you, Min.

Looking ahead, we continue to believe we are well positioned to disrupt the payment landscape as we expand our global presence, improve our innovative payment solutions technology, and establish the operational infrastructure to facilitate our growth strategy. I look forward to providing additional updates in the months to come.

Before moving to the Q&A portion of today's call, I would like to add a few comments pertaining to compliance and stability of Stablecoin technology in general, and our own Coyni technology. While we see some spectacular flaws in some coins recently, including the possibility of certain coins being de-pegged (phon) from their minted underlying currency, I would like to reiterate the differences between these technologies and that of Coyni, ensuring that such problems cannot occur with Coyni.

At the base of the defence wall, Coyni is fully custodial and fully transactional, with the backing of a federally chartered bank, and is audited for such ecosystem health and compliance continuously, and in real time. This method ensures Coyni cannot be de-pegged and keeps to instant full-value liquidity. Although no other Stablecoin has committed, let alone implemented, such architecture, it is likely that upcoming industry regulations will cement these requirements of all participants in the space.

Thank you, all, for your interest in GreenBox. We are fully, truly grateful for your ongoing support.

With that, I'd like to turn the conversation back to the Operator to begin the Q&A portion of this session. Operator?

Operator

The first question will be from Howard Halpern with Taglich Brothers. Please go ahead.

Howard Halpern

Good afternoon, gentlemen.

I jumped in a little late but hopefully you can go over this all through, but your processing volume doubled from year-over-year. Revenue didn't really budge all that much, $100,000 up. Am I understanding that revenue really isn't going to budge too much until the second half of the year? Is that what you were saying towards the end of the presentation?

Ben Errez

First of all, Howard, welcome to the call. You have been a good friend to the Company, and have been following us for a while, and your analysis of our financials is very impressive, so thank you for your continued support.

Howard Halpern

Okay, thanks.

Ben Errez

Now, you did mention that they—we had a significant volume of processing growth. I think you mentioned the 2x growth we actually did in Fiscal Year '21 over Fiscal Year '20, about 10x, and as we stated in the beginning of this call, the first quarter of this year, which we are discussing today, has been the biggest in the Company's history, with a total processing volume reaching approximately $750 million total.

As we look forward to the rest of the year, we anticipate this volume to continue and grow, with every quarter this year budgeted for a new record in volume of processing, one of the most important metrics that we use to analyze Company's performance.

As you grow volumes it is very difficult to maintain operating margins alongside with that. Not only because the product mix tends to pull towards the safer lower-risk lower-reward type of business, but also as you address the universe of independent sales, organizations, you tend to shrink operating margins along with it. Still, it is our main objective to continue and grow volumes as quickly and to the highest degree that is afforded to us and anticipate, as we will see, significant volumes through Fiscal Year '22 and beyond.

In terms of operating margins, our internal goal was, and continues to remain, to be a little over 60 basis points on volume in terms of net revenues.

Howard Halpern

Okay, okay.

Ben Errez

I think I would stay with that, unless…

Howard Halpern

(Multiple speakers)

Ben Errez

… Min or Ben want to add to that.

Howard Halpern

With that trend getting to that 60% or a little above…

Ben Errez

Yes.

Howard Halpern

… 0.6 in the (multiple speakers).

Ben Errez

60 basis points, yes. Basis points. Yes

Howard Halpern

In the second half of the year, that should be a solid metric to use.

Ben Errez

Yes. I agree.

Howard Halpern

Then with the acquisition of Sky, will we start to see cost of sales also improve or will you be less reliant on the ISOs, and how do we look at that part of the equation to get down to gross profit that should improve in the second half of the year?

Go ahead, Ben.

Ben Errez

Thank you.

The one change that we discussed on today's call with regards to the cost of sales has been helped and improved by the acquisition of the Sky portfolio. By the way, the Sky is an asset acquisition, and not a Company acquisition, so I just want to make sure that we speak with the right terms.

Howard Halpern

Okay.

Ben Errez

As we move that portfolio internally, on that particular piece of the business, operating margins will improve. As it—and used to balance out the opposite trends from growth in all other business units. I think the general trend that you have identified is correct. We would like to stay and budgeted paying in the neighborhood of 60 or better basis points on volume. Ben, did you want to add to that?

Ben Chung

Yes. We mentioned our block, our block technology, and as we grow our infrastructure, our plan is not just to rely just on Sky portfolio, but also grow internally by adding new merchants into our block. That's really our core technology for our payment processing system. With our block, when we underwrite and onboard our merchant, our margin becomes much higher, so our basis point that Ben E. is alluding is very conservative. It could be more as we get into different type of industries, which provides us higher risk portfolio, and as a result, our basis points on that net revenue should increase significantly on a go-forward basis.

Howard Halpern

One last one with Transact, now officially in the fold, what are you seeing in terms of the employees there or the principles that sold the business who are still there trying to ramp up the business? What are you seeing in terms of them onboarding new customers going forward, and that—at what should be a higher margin business too, if I'm correct?

Ben Errez

Let me deliver the baton here to Min who manages our international expansion for better visibility on that part of the business.

Howard Halpern

Okay.

Min Wei

Thank you, Ben.

Howard, to answer your question, absolutely. Transact Europe is a very strategic acquisition for us. I just recently visited the office to welcome them to the GreenBox family. We have very good honest people there working really hard. We see Transact Europe being a key foundation for our FX and the international payments business line that we intend to grow. This is actually one of those really compelling piece of the puzzle for us. We actually expect to see much better contribution margins on the FX and the international payment space. I was planning to weigh in anyway to your question earlier, as we continue to onboard customers there—as a matter of fact, we started doing that already—we will see our contribution margin from that space in helping us to improve our overall margin.

Howard Halpern

Okay, okay.

Thanks, guys, and keep up the good hard work that you're doing.

Ben Errez

Thank you, Howard.

Operator

The next question will be from Chris Sakai with Singular Research. Please go ahead.

Chris Sakai

Hi Ben.

Just a question on Coyni. Was it Q3, are you expecting it to launch? Is that going to be usable with Transact Europe in Q3?

Min Wei

Hey, I can take the—I'll take that question. Definitely a good question.

Q3 is going to—as I mentioned earlier, we expect to see ramp up volume both domestically and internationally for Coyni in Q3, and the answer to your question is yes and yes. We expect to see more usage of Coyni within the states, and also leveraging Transact Europe for FX international payments. Like I mentioned earlier, we started onboarding customer there already, we expect to see volume ramping up, and that will help us internationally too.

Chris Sakai

Okay, great.

Then, didn't hear anything about American Samoa. What's going on there?

Min Wei

Yes, I can answer that question, too.

As a matter of fact, this quarter's an exciting quarter. As I mentioned in previous communication with you, we started laying the foundation on work in American Samoa this quarter, and as a matter of fact, we are working with the local bank and that to fill the initial sales orders we have. We start doing work there, we intend to share more updates in the coming weeks or months. Please stay tuned.

Chris Sakai

Okay, great.

Can you comment on any acquisitions in the future?

Ben Errez

Yes, I'll take that. That's one of my favorite topics.

First of all, Chris, thanks for your continued support. You've also been a great analyst, and your view is very much appreciated. Also, I wanted to thank you for being one of our beta testers on Coyni and providing very material feedback on the health and stability of that system.

With regards to acquisitions, we definitely see additional acquisitions coming down the pipe. We have identified at least two that there could be potential targets for the Company. I'm unable to disclose a lot more beyond that, but the overall goal with acquisitions remain the same. The same metrics that we use to evaluate the business performance of GreenBox itself are the metrics that we're looking for in potential target acquisitions. We have set aside the right budget structure and organizational support to be able to add such acquisitions, and I anticipate that we will do at least one major acquisition within the next one or two quarters.

Chris Sakai

Okay, great. Thanks for that.

Is it right—so margins are expected to increase back to 60 basis points. Is that by next quarter or by Q3?

Ben Errez

As Min specified, we see the second quarter behaved just slightly better than the first quarter, leveling off in the third quarter, and hockey stick upwards in the fourth quarter. Exactly what does that mean? We have internally projected but have not yet discussed that outside the Company and the Board, but that essentially is my guidance to you today. You should expect about a flat Q2-over-Q1, about breakeven Q3, and much better performance in Q4.

Chris Sakai

Okay, great.

Last one for me, can you comment on any of the share buyback? Is there any left there—any money left?

Ben Errez

Yes. We do have still a budget for that. We are looking at what is happening out there with our stock and with the stock of our peer group. We look at that with horror, just like all of you, and most of our shareholders. We know it's temporary. We don't want to gamble on calling any particular bottom. We think that the stock is dramatically undervalued. We continue to purchase it internally, and you can see some of the results of that in our financials. We still have some budget left to continue and do that, and we will continue and do that so long that the conditions are substantially the same as they are now.

We think that selective opportunities exist, not only with our Company, but with others, and we will deploy our capital accordingly.

Chris Sakai

Okay, great.

Thanks for the answers, Ben.

Ben Errez

Thanks for the question, Chris.

Operator

The next question will be from Darren Aftahi with ROTH Capital Partners. Please go ahead.

Austin

Hi this is Austin (phon) on for Darren. I appreciate you taking my questions, and congrats on the quarter.

I just have a few for you, on the last question, and I apologize if this is somewhat reiterative, but I was just curious, Ben, on how you view maybe balancing the aggressiveness with the structure of buybacks versus acquisitions?

Ben Errez

Yes. Thanks for that question.

I tried to say exactly that, and thanks for helping me with the phraseology there. Opportunities are out there with our stock and with acquisitions of other company. I think being selective is what we are mandated to do—just like not all companies are born the same or operating the same, not all Stablecoins are born equal, or operating in the same responsible fashion as Coyni is demonstrating out there. It's very important to understand the differences in when you analyze opportunity, both for our own stock and for acquisitions outside of our space. We intend to continue and deploy the same strategy, both internally on share buyback and in our acquisition.

I cannot give you any guidance on stock. That's not my job, but I can tell you that internally we see our stock as very much undervalued, and as I said before, we'll continue to deploy capital in accordance with that assessment.

Austin

Got it. I appreciate that.

Then to touch on Coyni once again, it sounds like it's more of—it'll likely be formally rolled out and looking towards Q3, I'm just curious what outreach you have in publicly differentiating Coyni from some other Stablecoins in terms of how it's backed up and so forth?

Ben Errez

Yes, that's a great question. If you would allow me, I'll start form the second half of the question.

First of all, I have said that many times, on interviews, on podcasts, and even in your own conference, that ROTH Conference I participated in a discussion panel about the space, and I said exactly that, that you have to put a fundamental importance on two elements pertaining to Stablecoin; one is its custodial property, and the second, its transactional property. Everything that we see today in terms of if you look at the USD or if you look at the Luna, and other Stablecoin, that they are disastrous in performance and in stability. This is not something that you would see from Coyni.

I can tell you that the writing the original Coyni white paper, approximately two years ago, I have identified that risk specifically, and I'm talking about the de-pegging risk, already two years ago. This is not new.

Having the right custodial architecture is probably the most important piece of representing minted currency using digital vehicles. When you talk about custodial properties, we divide those into two.

Number one is having the ability to mint, essentially to exceed the number of tokens in circulation versus the number of dollars or whatever is the underlying minted currency that supports the ecosystem. That ability to mint has to be removed completely from Stablecoin conversation. The ability to mint has to be replaced by licence to issue which is granted with federal responsibility. In other words, you first have to fund the trust or backup account, and then get a licence to mint, or to issue additional tokens.

Second, that compliance and health of the ecosystem has to be verified by way of reasonable auditing capabilities in real time, and all the time—not only upon request. That means that this real-time audit has the ability to shut down a non-compliant system instantly. As I said in the previous few presentations, this property only exist today with Coyni. For whatever reason, probably because it's very difficult to implement from the technology perspective, no other Stablecoin has subscribed to that architecture, and as a result, we see these spectacular failures. I can assure you that the Coyni architecture cannot allow for something like this to happen.

Austin

Got it, I appreciate that.

Just the last quick one for me, I'm curious how you guys think about international expansion, mainly in an environment, a high-volume geographic location like APAC versus maybe a more underserved geography such as Latin America or something like that.

Min Wei

Yes, I can answer the question. A very good question, right?

As a starting point, we're looking at multi-currency capability. I will also say that's one of the unique, hopefully differentiated for Coyni platform as well. Initially, what we would do is we'll start with major currencies, including U.S. dollars, Euro, Great British pounds, and Canadian dollars. We do have the licence in Brazil, and through the Transact Europe acquisition we have acquired an EMI license in Europe. We will be well positioned to handle additional currencies. I'm not in a position to disclose that, but we are indeed looking at a roadmap to enable multiple times (phon) of the initial currencies reasonably quickly.

Austin

Got it. That's helpful.

Well, I think that's all the questions I have, so I appreciate it.

Operator

Thank you. At this time, this concludes our question-and-answer session.

I would now like to turn the call back over to Mr. Ben Errez for his closing remarks.

Ben Errez

Thank you, Chad (phon).

I would also like to thank all of you for joining our earning conference call today. We look forward to continuing to update you on our ongoing progress and growth.

If we were unable to answer any of your questions, please reach out to our IR firm, the MZ group, who would be more than happy to assist.

Thank you, all, and I appreciate your time.

Back to you, Operator.

Operator

Thank you, Sir. This concludes today's conference call. You may now disconnect. Thank you and have a nice day. Take care.