



GreenBox POS

Fourth Quarter and Full Year 2021 Earnings Conference Call

March 31, 2022

CORPORATE PARTICIPANTS

Ben Errez, *Chairman*

Ben Chung, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Ben Piggott, *EF Hutton*

Howard Halpern, *Taglich Brothers*

Chris Sakai, *Singular Research*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the GreenBox POS Fourth Quarter and Full Year 2021 Earnings Conference Call.

During today's presentation, all parties will be in 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 annual report, which includes the Company's results of operations for the year ended December 31, 2021, was filed with the SEC today.

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

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 Ben Errez, the Company's Chairman. Ben, the floor is yours.

Ben Errez

Hello, everyone, and thank you for joining us today for our Fourth Quarter and Full Year 2021 Financial Results Call.

2021 was a record setting year for GreenBox. We continued to rapidly expand our payment processing footprint and processed approximately US\$2 billion in transaction volume, which makes it about 10 times the processing volume of Fiscal Year 2020.

As we've discussed previously, processing volume is currently our primary KPI and business focal point. It is indicative of the scalability of our technology, our market share growth, our ability to remain compliant, and our investment in good quality people, technology, development, infrastructure, and acquisitions.

We also achieved record company revenues during 2021 of \$26.3 million, representing tremendous growth of over 209% when compared to 2020 Full Year revenue. As a reminder, our Generation 3 technology was only deployed at the onset of 2021, in January of last year. To achieve impressive scale so quickly with no major setback is a demonstration of the quality and capabilities of our talented team and technology.

With that, I'd like to walk through some key operational highlights and provide updates on several of our core objectives that we have been diligently working on towards.

Acquisitions are a vital part of our growth strategy. They allow us to purchase merchant portfolios, adding processing volume to our platform and provide a way to obtain key licensing assets, both domestically and globally, that enable us to branch out and service more verticals and geographic locations.

In 2021, we announced three such acquisitions, including Northeast Merchant Services, ChargeSavvy and Transact Europe. The first two acquisitions have been completed and successfully integrated with the GreenBox operations. As an indication of their success, just six months after integration, ChargeSavvy recorded the best quarter in its 9-year history as a result of improved technology and efficiencies.

Regarding Transact Europe, after a lengthy review process, I'm excited to report that after receiving final approval from the Bank of Bulgaria we can proceed with closing. Transact Europe or TEU is an incredibly important purchase for us, given that it opens doors for us globally for expansions both in Europe and as a stepping stone into markets in Asia Pacific region.

It gives credibility to GreenBox further establishing us as a premier global FinTech. GreenBox and TEU are a natural complement to each other with TEU licenses and infrastructure combined with our suite of customized payment solutions and technology. We believe there is a powerful synergy that we can capitalize on, drive Coyini adoption and ultimately achieve significant revenue and earnings.

An 8-K filing was just made based on the amendment to the purchase agreement regarding the purchase price of the acquisition, which was reduced to €26 million from the original €30 million. While not complete just yet, we are confident this will cross the finish line next couple of days. So, we can announce that this transaction is in completion mode.

Earlier this year, GreenBox launched a vast new payment vertical by offering bulk ACH processing abilities to merchants. ACH market is a lucrative opportunity for us, as it offers merchants a low cost execution alternative to more expensive debit and credit cards. Since our launch of this initiative, we've already booked commitments in excess of \$50 million per month and driving. This is a profitable multi-million dollar revenue stream for GreenBox, which we expect will continue to grow over time.

Establishing strategic partnerships with leading tech forward financial companies is also an integral part of our growth strategy. We recently announced such a partnership with Cross River Bank, a very well respected financial technology infrastructure company, following a very thorough evaluation process by

them of GreenBox. I'd like to take this opportunity to congratulate Cross River for raising \$620 million last week.

We entered into a licensing partnership as the initial step towards the first of its kind, banking-as-a-service initiative. This is a truly massive opportunity for us that significantly expands the potential universe of clients that GreenBox can service, 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 this partnership, we expect great things from it, and over time believe it will lead to a substantial revenue generation for us.

Throughout 2021 and into the new year, we continued to strengthen the composition of our management team. Recently, we welcomed Min Wei as our new Chief Operating Officer. Min has extensive background in operational efficiencies and growing technology companies, particularly on a global basis, which is critical for us, given our expansion plans. Min Wei will be available at the end of this call, as well as Ben and I, for Q&A.

Given these aspirations, we set out to find the right marketing and branding leader. We found that perfect fit with the appointment of Jacqueline Reynolds as Chief Marketing Officer. With decades of experience leading some of the most highly coveted brands, Jacqueline is respected as a world class global marketer. She's also spearheading our recently announced transformational global initiative to raise the GreenBox brand awareness with the appointment of an award winning advertising agency Innocean as our advertising and branding agency of record.

In January, we once again demonstrated our commitment to our shareholders and confidence in our ability to execute on the growth opportunity in front of us, with the approval of an accelerated share repurchase program of up to \$10 million. Our commitment to defend our stock is unwavering, and we will continue to utilize this strategy when we feel it is prudent. Additional details regarding this stock purchase plan can be found in our 10-K filing.

Last, but certainly not least, let's talk about Coyni, our stable coin and digital payments platform. All of the aforementioned items I've discussed lay the foundation for us to drive adoption for Coyni. After much internal discussion, we believe the most effective path for us, initially at least, is to deploy and grow the business under the GreenBox umbrella. There are several key advantages that we can leverage such as compliance, sales, and more effectively execute on its growth.

The Coyni app has gone through a vigorous beta testing, as well as three auditor attestations. We plan to make the Coyni app available on the App Store in a few weeks, perhaps by the end of April. We remain 100% committed to rewarding our loyal shareholders from the success of Coyni and our acquisitions by way of dividends in the same parameters as we have discussed before.

Now, I turn the call over to our Chief Financial Officer, Ben Chung, to walk through our financial results. Ben, the floor is yours.

Ben Chung

Thank you, Ben.

I will limit my portion to key results of our financials. A full breakdown is available in our 10-K filing and in the press release that will be distributed after market closes today. Please note that I'll be referring to Adjusted EBITDA and other non-GAAP measures. For the calculation of Adjusted EBITDA for other non-

GAAP measures, please refer to the MD&A which is available in our 10-K filing, which you can find on our website under SEC filings.

Our 2021 total net revenue increased by \$17.8 million or 208.6% to \$26.3 million from \$8.5 million for the Full Year 2020. The increase was primarily due to an increase in processing volume from \$20.2 million for the year ended December 31, 2020, and \$1.95 billion for the year ended December 31, 2021. The increase in processing volume was due to a number of factors, including growth of our customer merchant base as a result of expanded sales and marketing efforts, an increase in average merchant transaction volume as a result of greater strategic focus on larger merchants, the expansion and growth of our advanced blockchain ledger based payment solutions product offerings, combined with an expanding ISO and partnership network, and our strategic acquisition strategy.

2021 gross profit was \$16.9 million or 64% of net revenue, an increase of 357% compared to \$3.7 million in the prior or 43% of net revenue. Our margins increase significantly due to increased processing efficiency, greater utilization of lower cost gateways and decreased cost to scale.

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

Our normal operating expense was \$20.8 million and \$5.7 million for Full Year 2021 and 2020 respectively, an increase of \$15.1 million, primarily due to an increase in general and administrative expenses related to bad debt expense, but 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. Our stock compensation expense for services are non-recurring charges, which will not recur going forward. We ended 2021 with a loss from operations of \$20.8 million, compared to a loss of \$5.0 million in the same year prior year.

If our non-cash operating expenses such as bad debt, stock compensation expense for employees and services, and depreciation are added back, we had net income from operations of \$3.1 million for 2021 and a net loss of \$5.1 million for the same period prior year.

I will now like to go to our other expense category. Our total other expense for Full Year 2021 were approximately \$5.7 million compared to other income of \$0.1 million in the prior year. Our other expenses consisted of interest expense related to debt discount of \$2.9 million, interest expense of \$1.9 million, derivative expense of \$3.4 million offset by changes in fair value of derivative liability of \$2.8 million, a merchant liability settlement gain of \$0.4 million and other income of \$0.2 million.

The Company sustained a net loss in 2021 of \$26.5 million or \$0.65 per basic and diluted share compared to a net loss of \$5.0 million or \$0.17 cents per basic and diluted share during 2020. The increase in net loss was primarily due to bad debt write-offs, increase in operating expenses from our heavy investment in growth related to such areas as research and development, sales and marketing staff, costs associated with due diligence for acquisitions, stock based compensation for services, as well as increase in general administrative expenses. Adjusted net income, a non-GAAP financial measure, for 2021 was \$3.1 million of net income. You can find a reconciliation in our earnings press release.

Our cash flows from operating activities adjusted was negative \$6.9 million for the 12 months ended December 31, 2021. GreenBox continues to be in a financially healthy position with a strong cash

balance of \$89.6 million as of December 31, 2021, following the recent \$100 million convertible financing, which allows us the flexibility to aggressively pursue our growth initiatives.

I'll now turn the call back to Ben Errez for some final remarks prior to our Q&A.

Ben Errez

Thanks, Ben.

On a final note, we fully acknowledge the performance metrics hurdles for Q1 as specified in the convertible note agreement, so called \$100 million note, and the ramifications of such. Based on the performance we've seen in Q1, we are confident that this conversion trigger will not come into play. Our revenues far exceed the requirements of these triggers.

While much work remains to be done to accomplish our ambitious agenda, we have made tremendous progress in a relatively short period of time. As your Chairman, you have my unwavering commitment to the many initiatives that we have set out to achieve. We have invested heavily in good people, built a robust and scalable infrastructure, developed innovative payment technology, and added world class marketing. We're well positioned for growth over the course of the next several years and to deliver long-term sustainable value for shareholders.

I'd like to thank each of you for listening to today's call and for your interest in GreenBox. We're truly grateful for your ongoing support.

With that, I'd like to turn it back to the Operator to begin the question-and-answer session. Operator?

Operator

Thank you, Ben. We will now begin the question-and-answer session. We will pause for a moment if callers join the queue.

Ben Errez

Thank you, Operator. I'll just mention again that Min Wei, our new Chief Operating Officer, is available for questions as well. I will wait for the first question.

Operator

Our first question is from Ben Piggott with EF Hutton. Please go ahead.

Ben Piggott

Hi. Just a little bit more color on the thought process of keeping Coyne internal under the GreenBox umbrella versus spinning out would be great.

Ben Errez

Yes, thanks for the question, Ben.

Coyne is an infrastructure. It's a major play for GreenBox. Coyne started its life initially as a manifestation of the smart contract technology that GreenBox had in its infrastructure beginning in 2019. Later on, it

was formed, again, as a wholly owned subsidiary, now we're talking about the middle of last year, with the anticipation of it becoming a standalone IPO opportunity for the Company.

A few things happened since. Number one, obviously capital markets are vastly different now than they were last year. Second, opportunities that the Company had in terms of say acquisitions, international portfolios, licensing opportunities, onshore in Europe and Asia Pacific region and other developments, make Coyni a very, very powerful add on to this infrastructure. It makes sense for us to merge these capabilities first within GreenBox and its new acquisitions, launch through our global expansion plans and then do a spin-off perhaps when capital markets regain foothold.

At the same time, as I said on the call, we remain committed to the dividend rewards for shareholders, as we were before. So, the fact that Coyni launched as a separate entity may be delayed and may take even different shape at the end of the day, the reward commitment remains unchanged. I hope that answers your question.

Ben Piggott

That's helpful. Thank you.

Ben Errez

You're welcome.

Operator

Our next question is from Howard Halpern with Taglich Brothers. Please go ahead.

Howard Halpern

Good afternoon, guys.

Curious about you know that the potential for that new line ACH bulk processing. You say you have commitment. Has some volume started yet and revenue flowing, or when do you expect that to be to kick in?

Ben Errez

We have already booked these volumes on our backlog. So what happens now is that we are in the process of onboarding all of this activity. Onboarding takes a little bit of time, ACH business is slightly different. I see this as the process that will take maybe four weeks or so, but this performance is imminent. We know that it's there, it's committed. Technology has already been integrated to allow for that. This is now in launch procedures.

Howard Halpern

Okay. That source of revenue, is that going to be additive to that \$4 billion in transaction revenue for this year? Or is that part of that forecast?

Ben Errez

I guess it's a little bit of both. The onset to committed volume is higher than we budgeted. So, you'll see some bumps to the overall projections, but some of it was already budgeted in the \$4 billion to \$6 billion volume range for this year.

Howard Halpern

Now, with Transact that's going to close soon, do you still need another one or two acquisitions to get to the minimum of that \$4 billion? Or are you pretty much on track with the blocking and tackling?

Ben Errez

Yes. We are on track with the current acquisition map. Although not fully committed to another acquisition, yes, we definitely see that as something that we would like to execute in a big way during 2022. We don't have further details that we can share at this point, but do expect a big move on that from us. Perhaps one that will require shareholder approval. For you investors, this means something in terms of the size of it.

Howard Halpern

Okay. More a fourth quarter question. The gross margin came down a little bit. Was there something in the cost of sales? Because it dropped compared to the first three quarters. Should we look at, going forward, are we turning back to what you had seen in the first three quarters of 2021?

Ben Errez

I'm going to let Ben C. tackle this first, and then I'll add my own comments.

Ben Chung

Can you repeat that one more time? (Multiple speakers).

Howard Halpern

Okay. Q4 gross margin seemed to dip compared to the first three quarters. I don't know if it was a one-time item in the cost of sales. Are we looking for a return back to what we've seen in the first three quarters of 2021 into 2022?

Ben Chung

When you're saying gross profit, it was at operating margin, or gross margin?

Howard Halpern

The gross margin was 43%, I think you said, versus 56%. In the prior three quarters, you were in the 60s, towards 70s actually, in gross margin.

Ben Chung

Yes, I don't think I gave out the Q4 gross margins.

Howard Halpern

That was in the press release. Gross profit was \$3 million versus \$1.7 million, 43% versus 56%.

Ben Chung

Got it, got it. Yes. So, the margin changes based on the timing of the ISO settlements based on the revenue that we recognize in that period. So, in Q4, we onboarded more ISOs and so we processed more commission payments or to the ISOs in Q4.

Howard Halpern

Okay, it's more of a timing issue than anything else?

Ben Chung

That's correct. I think, Ben, you had alluded that we're trying to utilize our blockchain technology, the Gen 3, more effectively, and we're growing our own salesforce. So, that means that we'll have less ISOs to deal with. So, we'll have a much higher margin as we go along.

Howard Halpern

Okay. Just one final question. What's the status of getting American Samoa up and running?

Ben Errez

First, let me just add a comment on your previous question, and then I'll get to American Samoa.

Ben is right, and this is something that they wanted to get to during this Q&A. Timing of revenues, clearly, impacts our financials and accruals. So, you can expect pretty flat trends on an operating margin, even though the nature of the business doesn't change. We add a lot of volume, it's very difficult to add volume and maintain profit margins. So, that we'll have tendency to reduce margins. On the flip side, this is mitigated through technology advancements and the move to native hosting of that business.

Ben alluded to that by saying move to blockchain. Essentially, it means move to the native ledger that the Company owns 100%. So, every volume that moves there automatically increases in efficiency and balances out the tendency to lose points when you go to much larger volumes.

The second part of your question with regards to American Samoa. So, we project the full impact of the GreenBox technology on American Samoa towards the fourth quarter of this year. Right now, we have technology already launch there. We have merchants that are being served over there through GreenBox. Later on, Coyni will be integrated into the financial infrastructure of the island, leading to a complete coverage of the entire financial and economic infrastructure of the island through GreenBox technology. This is an amazing development for the Company. We put a lot of emphasis and resources in getting this done right. We have our own officers assigned to launching this project with full commitment.

They don't have anything else that they do. These are very, very high level executives with the Company and in charge of launching this project to the maximum efficiency. This to me is one of the most exciting features of the GreenBox and its financial performance.

Howard Halpern

Okay. Thanks, guys. Keep up the good work.

Ben Errez

Thanks, Howard. Appreciate it.

Operator

Our next question is from Chris Sakai with Singular Research. Please go ahead.

Chris Sakai

Hi, Ben E. and Ben C.

I just had a question, I guess, on I know you're saying the Transact Europe is going to close soon. Can you provide any color as to how the revenue share is coming? How much revenue was currently coming from Transact Europe?

Ben Errez

Transact Europe, first of all, on the status itself, I already stated that we are in the closing phases of this transaction. We are already wired our funds to escrow, the approval for the acquisition is on hand. There's nothing further for us to perform on this acquisition except for the closing itself. As we speak, closing procedures are taking place in Europe.

Our own Fredi Nisan, our CEO, will be traveling in the next few weeks to Bulgaria and firsthand experience with the control of the Company and its workforce procedures, technology, and I expect the big numbers to come out of this transaction materially impacting GreenBox bottom line.

In terms of volume, Transact Europe is an acquisition that for us was basically a composition of two objectives. The first one is its set of the licenses and commercial linkages to the economic infrastructure in Europe greatly positioned in a great way for us to take advantage of our technology, especially in our future expansion into Asia Pacific.

APAC region is critical for the Company. It's critical for the entire payment world. It is predicted that the APAC will be responsible for more than half of all payments, transactions around the world by 2024. Clearly, we need to have a foothold in that region.

The primary objective in Transact Europe is probably responsible for more than 80% of the value was to get control over this licensing and relationship capabilities that they have. The existing volume, I should say, is secondary to the rationale behind this acquisition. So, I think they do about \$20 million per month, which is a minor amount for us. It doesn't impact our revenues in any significant way at this point; but we believe that Transact Europe, within the next few quarters, perhaps within the year, will reach volumes that parallel and exceed what we do today with the ChargeSavvy, for example. ChartSavvy is in the \$500 million a year range as we speak.

I think that these two objectives with the addition of the ability of the Company to negotiate down the price by €4 million is a very good acquisition for the Company. We're very happy with it, looking forward to completing it, and beginning executing on it perhaps as soon as next week. The transaction itself is scheduled to close today, but they may be delayed by a few days pending international wires and currency exchanges and things like that. We're very excited about this opportunity. Thanks, Chris.

Chris Sakai

Okay, great. I know you mentioned some bigger acquisition in 2022. I know there's some talk about, I guess, partnerships with GreenBox and or Coyni. Can you talk about any sort of comments on any future partnerships that you may have?

Ben Errez

Well, Coyni is a technology that is 100% owned by GreenBox. So, Coyni has one role, and that is to be accretive to the GreenBox bottom line and shareholder value. So, from time to time, even though it may change focus, but it will change focus or we'll do such thing only to improve its bottom-line contribution to the Company and its value as an asset to the Company which impacts, in turn, shareholder value.

I spoke before about integrating Coyni with other opportunities, the first one of which is Transact Europe. Coyni makes a Transact Europe process cross-border international funds instantly. No one else has the capability. Coyni has immediate value, and not derivative value, actually based on cash. No one else has that. Coyni has the ability to do all of that with the option of being reversible. Again, no one else has that. So, we're very excited to continue to execute on the Coyni mission with the same overall objective. That is to continue and contribute to the Company and its shareholders.

Chris Sakai

Okay. Thanks. I know you mentioned—so you've got \$90 million of cash minus the \$26 million for Transact. Any comments there? I mean, you mentioned one acquisition. Is there possibly two in there for the year?

Ben Errez

Chris, you know I can't say anything about that, but thanks for the question. Yes, you can expect more. Both the one currently being executed in those plans. I can't really divulge any further information as it will be material non-public information, MNPI, but do expect to hear from us very, very soon about such activity, both small and very large.

Chris Sakai

Okay. Lastly, how many shares have been repurchased in this new \$10 million plan?

Ben Errez

I believe that information is in the 10-K, but I can tell you that so far we bought back approximately 1.4 million shares. We intend to continue and purchase, so long that we perceive the value or the price of the stock to be unfairly stated. That aside, please notice that the 10-K also include what's called a 10B5-1 provision, where we specify the buyback plans. From here on after, in fact, starting tomorrow, this will be executed automatically, as all 10B5 programs do. So, do expect that.

Chris Sakai

Okay. I think someone asked this before, but for your projections of \$4 billion to \$5 billion in processing volume, does that include this acquisition that you're talking about in the future? Or is that only with what we have now?

Ben Errez

Yes, we haven't yet amended our models, and we couldn't do that before the acquisitions are completed. We will rework the models and perhaps provide amended projections in the near future. Now, that this transaction is essentially closed, we have an opportunity to do that.

Chris Sakai

Okay, great. Thanks, Ben.

Ben Errez

Thanks, Chris. I also wanted to thank you specifically for being one of our early adopters, testers on our Coyini application. I look forward to your feedback and remarks.

Chris Sakai

I would say I hope to try it, definitely. I'm excited to try it.

Ben Errez

Thank you. Operator, I believe this is the end of the Q&A.

Operator

Yes, that was the last question, sir. Yes.

Ben Errez

Okay. So, at this time, this concludes our Q&A session. I would like to thank all of you for joining our earning conference call today. We look forward to continuing to update you and our ongoing progress and growth. If we were unable to answer any of your questions, please reach out to us either via MZ group, who you all know, our IR firm or directly to me. Most of you have my email address at the Company and I try to answer all questions directly. Thank you all at this time.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.