

HELIX TCS EARNINGS CONFERENCE CALL Q3 2019

Moderator: Good day, everyone, and welcome to the Helix TCS 3rd quarter 2019 earnings call. At this time, all Participants are in a listen only mode. Later, you'll have the opportunity to ask questions during the question and answer session.

Please note, this call may be recorded, and I will be standing by should you need any assistance.

It is now my pleasure to turn today's conference over to Zachary Venegas, CEO and Executive Chairman.

Zachary Venegas: Welcome to the Helix TCS Q3 2019 earnings call. I'd like to thank you for joining us and taking time out to hear what we have to say. I'm joined here by our intrepid CFO, Scott Ogur. And we'll both be taking calls at the end of the call itself, so if you have any questions, please write those in at ir@helixtcs.com. That's ir@helixtcs.com, and we'll address all those questions as best we can with the time that we have.

I'll now turn you over to Scott for all the fun disclaimer issues for a moment before I continue the call. Scott.

Scott Ogur: Thank you, Zach.

This presentation may contain forward looking statement within the meaning of Section 27(a) of the Securities Act of 1933, as amended, and Section 21(e) of the Securities Exchange Act of 1934. Forward looking statements describe future expectations, plans, results, or strategies, and are generally preceded by words such as may, future, plan or plans, will or should, expected, anticipates, draft, eventually, or projected.

You are cautioned that such statements are subject to a multitude of risks and uncertainties that could cause future circumstances, events, or result to differ materially from those projected in the forward looking statements including the risk that actual results may differ materially from those projected in the forward looking statements as a result of various factors, risks that we may not realize the anticipated benefits of acquisitions we may make or plan to make, and other risks as identifies in the company's 10 K for the fiscal year ended December 31, 2018 and other filings made by the company with the Securities and Exchange Commission. Zach.

Zachary Venegas: Thank you, Scott.

So as we kick off, let's start with what we intended to achieve this quarter, and that was simply strong revenue growth both by activating

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previous acquisitions and increasing our organic sales, operational improvements that were largely focused on costs but also focused on bringing new revenue verticals to the market, and making sure that we had, for lack of a better term, the right people on the bus.

So as Scott will illuminate a little bit later in the call, we've done all of those things. But very specifically, we had a very strong uptick in our sales, especially in the monthly recurring revenue segment, which is critical to the firm's health and financial wellbeing.

There are lots of different ways that we're able to access revenue in the market and provide value to customers, but the mostly recurring revenue is that which is most critical to our health as a firm. And so that went up considerably. Again, Scott will get into details there.

We also had, again, operational improvements that were focused on cost cutting. Scott will detail all of those numbers, but we've essentially cut a very large amount of costs out of the operating structure without hurting at all any of our operating capabilities. And, in fact, we've been able to bring the data and wholesale market segments to bear while doing so.

So that's a little bit of the very tricky double headed of increasing revenue while at the same time cutting costs. It sounds easy, but it isn't. And as I like to say, it seems simple, it's just not easy.

Then we've also had a very strong quarter in the sense that we were able to bring our data segment to bear in the market. That's led by Garvis Toler. We'll talk about getting the right people on the bus. And that has shown very strong promise in the market and was very well received among our New Mexico clients.

So to get to the next piece is to say, look, we spent quite a bit of time after the BioTrack transaction ensuring we had the right people on the team. We think that we're done with that segment. And to talk about the positive, we've been able to bring on Garvis Toler, who we're sure that you saw in the press release if you've been following us, has a very impressive, for lack of a better term, Wall Street background, all the way up to, and including, being the head of capital markets for the New York Stock Exchange, as well as being the head of business development and sales for another data driven business that's very large and a leader in its space, Deologic.

So with him at the helm of our data segment, we feel very, very strongly that we're going to be able to get into the market and achieve all the objectives on the revenue side that we've set out for ourselves

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or just on that segment.

There's another sort of benchmark that we achieved in the market, and I just want to talk about that which is to say we were selected for the Deloitte Fast 500, which is to say the fastest growing technology company in the United States. We were number 32 And that's not just for cannabis. That's not some award that you can just buy by subscribing or only being compared to your cannabis peers who have the same exact problems you have. That listing is no holds barred among all small technology companies in the market.

We're very proud of that, and that's a clear indication that we're driving value in the market.

One other piece I'd like to talk about before I turn over to Scott to get into the supporting details of what we're doing is just to say this. As the market has gone up and down over the last say six months, we really as a firm have held up better than others. And although we can't do anything about the market per se, anyone who's paying close attention can see the clear trends where the market is now viewing us in the correct way. And I just want to make sure that's first and foremost on everyone's mind when they're evaluating our stock performance vis a vis the company's performance is what I hope you'll focus on here.

Scott.

Scott Ogur:

Thank you, Zach.

In the 3rd quarter of 2019, we generated revenue of \$3.74 million as compared with \$3.11 million in the prior year, for an increase of 20%. Gross profit was \$1.5 million versus \$1.2 million in 2018's 3rd quarter, a 23% increase. Gross margin was 41% as compared with 40% in the prior year.

We reported a loss from operations of \$2.86 million as compared with \$2.74 million in the prior years' 3rd quarter. Cashflows from operations were negative \$973,999 in Q3 2019 versus negative \$1.6 million in 2018's 3rd quarter, a 39% year over year improvement.

For the first nine months of 2019, we generated revenues of \$11 million as compared with \$6.1 million in the first three quarters of 2019, an increase of 80%. Gross margin for the first nine months of the year was \$4.9 million, or 44% as compared with \$2.2 million and 36% in the same period of 2018.

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On a segment basis, the two primary business segments are software and security guarding and monitoring. In the third quarter of 2019, software, which is a BioTrack business, generated revenues of \$2.4 million as compared with \$1.7 million in the prior year, or 43% year on year growth. Software gross profit was \$1.45 million in Q3 2019, up 64% from the \$885,000 gross profit in Q3 2018. Software gross margin was 62% versus 54% in Q3 2018.

The BioTrack business line continues to see strong growth as we added 300 new licensed customers and had our best quarter of new bookings ever at \$489,000. We are most please by the 10% sequential increase in recurring commercial revenues in Q3 2019 to \$1.6 million. As most of you know, this is a crucial metric for software companies.

The security guarding and monitoring business had revenues of \$1.14 million in the 3rd quarter of 2019, flat to Q3 2018. In the first nine months of 2019 security guarding and monitoring generated revenues of \$3.7 million, up from \$3.4 million in the same period of 2018.

Zach, I'll kick it back to you to address items that have occurred since the end of the quarter.

Zachary Venegas: Thank you, Scott.

So as you can see, we set out and achieved all of the goals that we had set for the quarter, and I would even argue a little bit of and then some. And in terms of just non-financial goals, we closed the Amercanex transaction which we had said in the previous call would be closed during that quarter. We expect to begin onboarding clients soon. And in addition, under the auspices of that business, we'll continue to serve not only commercial but state governments in term of their expanding cannabis needs which will eventually include the hemp market.

In addition, Canalytics [PH], which is our data arm, has already begun onboarding clients, and we expect that business to take off strongly in the quarters to come.

that's all the announcements that I have that we can look forward to and we can speak about. But I encourage everyone to watch closely because if everyone remembers what we've always done in the past is we've said little and done much. and I think that trend will continue going forward.

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And if there's nothing else, we'll now move to the question.

Moderator: At this time you may submit a question via email as stated earlier. You may also submit a question live over the phone at any time by pressing the * and 1 key on your telephone keypad. You can remove yourself from the phone question queue by pressing the # key. We'll pause for a moment to allow questions to queue.

Zachary Venegas: So we have some email questions here that are already in the queue, and I'll start with those. So the first question is – I leave off the name – but they say: I own almost 40,000 shares of your stock and I'd like to keep purchasing more because I believe in the software, but I'd love to have a conversation about the mega-dive that's happened over the last few months.

We're not surprised that that's actually the very first question. And to be frank, it's simply a sector decline. So right around the May-June time period we were expecting, and it actually came to pass, what we call risk-off. Which is to say lots of investors who view cannabis and the cannabis sector as a sort of frontier market, which you've heard Scott and I mention many, many times, decide to go back on their risk allocation and start to sell.

So given the fact that that timing occurred, and the summer is also a seasonally light period for volume, I think it sort of exasperated the effect. And given all the other things that are going on with the economy expectations, people were just what we call in the risk-off mode. So it was a significant pullback, and that's really what happened.

If you look at that pullback in terms of the data that we were putting out with regards to our performance, there's no real correlation. And it wouldn't surprise us today with even the rigorous results that we produced we may sell off. It's very hard to know what the market's going to do and how it's going to interpret things.

But what's clear is that, as the writer observed, the market really hasn't caught up with the full value proposition, in our view, and so there's nothing more I can say to it than that. But the market often overcorrects, I believe, for risks that it sees by the sector, and I think that's all that happened then .

So I have another question. The next one is how has the addition of Garvis Toler impacted the company as a whole?

So I'm very pleased to report that it's had a great impact both in terms

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of our operational capabilities with the launch of Canalytics and getting that vertical up and running in a quality way with deep collaboration with clients in record time.

But also Garvis have make impact in other areas as a capital market expert. Having him onboard has really allowed us, the leadership to look at the market – actually, to look at the market and almost ignore it to a degree, and really focus on the metrics and measures that are going to make the company valuable in the long term because, just like everyone else, as we see ups and downs happen, it does produce a sense of urgency and annoyance in us as the market doesn't recognize what we do.

But again, having an experienced and seasoned hand like Garvis gives us good perspective on all of that.

So the next write in question is: What advice would you give investors who are thinking about cannabis companies in their portfolio?

So that could be a very wide-ranging question. But what I say is really understand the business model of the firm you're investing in, and really understand where they sit in the ecosystem of cannabis. And when I say that, that also includes hemp, right.

So, again, we'll have some things to say about the hemp market in the weeks to come. But really, I think when people talk about cannabis, everyone thinks and speaks about growers, potentially retailers, but there's a much larger ecosystem.

And just keep this in mind. Cannabis as an industry is really not new. It's new and exciting from a legal point of view, but it's not a new market. It's essentially an organic – you know, it's a plant that we grow, harvest. It goes broken down into its component parts for whatever it's going to be used for, and then an ecosystem of service providers have evolved around it.

Well, that's existed for a very long time, I would say probably thousands of years. And so look at, in a historical context, when you have that type of situation, who wins and who losses? I would look at that first in that situation as the market consolidates commodity prices get driven down.

Now, there'll be winners in almost every segment, but what are the characteristics of those winners? Are they larger scale? Are they the first to market? Is it simple the best product, which it often is not?

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So I would say really understand your own investment thesis and look at what you're trying to get at, where you think the value will be from a macro perspective and then start to drill down onto individual names.

And then you always have to add in the wrinkle of federally illegal but legal on a state by state basis within the U.S. And then singularly gaining much greater acceptance internationally as a legal product. That wrinkle will also, I think, produce some good insight on who might be the winners and losers.

So that's my take on that from an investor's perspective. I don't know if Scott in particular would have anything to add to that.

Scott Ogur: No. No. I think you summed it up perfectly, Zach.

Zachary Venegas: Great. So that concludes the write in portion of the Q&A. Do we have any live questions?

Moderator: There are no phone questions on the line at this time.

Zachary Venegas: Okay. Well, thanks again to everyone for joining us on the call today. And we wish you the best, and we'll see you in another quarter.