

Helix Technologies Inc Second Quarter 2020 Earnings Call Transcript

Operator: Good day everyone and welcome to the Helix Technologies Inc second quarter 2020 earnings conference 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. You may register to ask a question at any time by pressing the star and one on your telephone keypad. Please note today's call may be recorded and I will be standing by if you should need any assistance. It is now my pleasure to turn today's conference over to your CEO and Executive Chairman Zachary Venegas. Please go ahead sir.

Zachary Venegas: Thank you for joining us today for the Helix Technologies Q2 2020 earnings call. We're especially glad to welcome you to the call in light of the fact that we'll be sharing our best results ever. Demonstrating the clear success of the strategic and operational changes that we began over a year ago. We achieved nearly all of our critical strategic and operational performance objectives for the year to include completing the turnaround of BioTrack. And achieving positive EBITDA while increasing our margins and revenue.

After growing to completely dominate the Colorado physical security market for cannabis, we've successfully divested our physical security business after the quarter end in order to strengthen our balance sheet and deliver a simpler value proposition to the capital markets.

Growing organic sales across all of our product segments especially in data services. I'll turn it over to our CFO Scott Ogur to read the litany against forward looking statements. Scott?

Scott Ogur: Thank you Zach. This presentation may contain forward looking statements within the meaning of section 27a of the Securities Act of 1933 as amended in section 21e 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 planned, will or should, expected, anticipates, draft, eventually, or projected. You're cautioned that such statements are subject to a multitude of risk and uncertainties that could cause future circumstances, events or results to differ materially from those projected in the forward looking statements. Including the risk that actual results may vary 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 identified in the company's 10k for the fiscal year ended December 31st, 2019. And other filings made by the company with the Securities and Exchange Commission. Zach back to you.

Zachary Venegas:

Thank you Scott. As usual, to begin our review, let's start with our mission statement. The mission of Helix Technologies is to provide clients with best in class critical infrastructure services through a single integrated platform which enables them to run their businesses more safely, more efficiently, and profitably.

Our 2020 objectives in support of that mission and results have been: number one, continue to improve our operating performance and reach profitability which we are happy to report has been delivered. Expand our data offering by bringing our newest product, Cannalytics Beacon, a sales enhancing data service, to the market by 4/20. Happily we report we delivered.

Fully rolled out Cubix Cord to all state markets that is currently in process, expand our Delaware hemp wholesale market into other states that is currently in process, continue to drive sales growth across all of our verticals. We have again delivered on that. And then navigate the current COVID-19 pandemic in a proactive and rational manner and continue to stay ahead of the negative outcome cascade. Again, as all across the country that is in process but we've had great success so far and haven't lost any significant productivity nor have we missed any revenue targets as a result of COVID-19.

And finally, to improve Helix's capital formation and capital market's capabilities with increased investor outreach and emphasis on market communication. Again, in process, though we've seen some success already even though we've had, as everyone else, minimal access to capital markets. Our CFO Scott Ogur will have the well deserved pleasure of delivering the financial details associated with those strategic and operational successes. Scott?

Scott Ogur:

Thank you Zach. In the second quarter of 2020, we generated revenues of 4.76 million dollars as compared with 3.90 million the prior year. For an increase of 22%. This is yet another record quarter of revenues for Helix and reflected sequential growth of 5% despite the presence of a full quarter of COVID-19.

Gross profit was 2.38 million dollars versus 1.90 million in 2019 second quarter. A 25% increase. Gross margin was 50% for the second straight quarter and increased from 49% on the prior year. In Q2 2020, we generated positive EBITDA and our adjusted EBITDA which excludes stock compensation and other non-cash expenses was positive \$338,000 versus negative 795,000 in Q2 2019. A net improvement of over one million dollars. The entire Helix team is proud of this historic achievement in the second quarter, validating our efforts in the push to get Helix into the blast on this cash flow metric during this calendar year.

Looking at another cash flow measure, cash flows from operations were positive \$446,000 in Q2 2020 versus negative \$714,000 in 2019 second quarter. A 162% improvement. This was our first quarter of positive cash flows from operations and drove first half cash flows from operations to be positive \$84,000 as compared with negative 1.9 million dollars in the first half of 2019.

Looking further at the first half of 2020 now, Helix generated 9.3 million dollars of revenue with a 50% gross margin. This represents 28% revenue growth from the first half of 2019 and a 4 percentage point improvement from the 46% gross margin last year. Our adjusted EBITDA in the first half of 2020 was positive \$259,000 as compared with negative 1.8 million dollars in the first half of 2019. These results are all the more satisfying given the widespread negative impact of COVID-19 on and minimal access to capital markets.

On a segment basis, the two primary business segments are security guarding and monitoring, and software. The security, guarding, and monitoring business had revenues of 2.0 million dollars in the second quarter of 2020, a 49% increase from the comparable period in 2019 driven by our fine growth in California and Colorado. The gross profit in Q2 2020 from this business line was \$429,000 as compared with \$550,000 in Q2 2019. For the first half of 2020, the guardian monitoring business generated 3.6 million dollars of revenue and \$707,000 of gross profit as compared with 2.6 million and 813,000 last year respectively. As previously mentioned, after the end of Q2, we sold the security guarding business for 1.75 million dollars.

Focusing on our larger and higher margin software business now. In the second quarter of 2020, this business line generated revenues of 2.61 million dollars as compared with 2.38 million dollars in the prior year, or 10% year on year growth despite the dampening effect of COVID-19 throughout Q2 of 2020. Software gross profit was 1.94 million dollars in Q2 2020, up 28% from the 1.52 million dollar gross profit in Q2 2019. Highlighting our targeted cost containment efforts over the past 12 months. Software gross margin was 74%, up 10 percentage points versus 64% in Q2 2019.

Recurring commercial revenues at BioTrack experienced 6% sequential growth in Q2 2020 and 40% growth year over year. As most of you know, this is a crucial metric for software companies and again demonstrates the power of our platform to generate growth even in the face of COVID-19.

As details in our 10Q where we provide segment reporting results, I'd highlight the software business unit which showed a loss from operations of \$235,000 in Q2 2020. However, included in this gap figure is over a million dollars of depreciation and amortization for the adjusted EBITDA of our software business in Q2 2020 without these non-cash figures was positive \$799,000 or a 31% adjusted EBITDA margin. This further improved upon the \$780,000 of adjusted EBITDA and the 28% adjusted EBITDA margin of the software business in the first quarter of the year.

We'd now like to take a moment to have Garvis Toler, our Head of Data, highlight Helix's Cannalytics product and what we've achieved so far. Garvis?

Garvis Toler:

Thanks Scott. We were really thrilled with the progress that we made in the data side of the business during Q2 crossing the 200 client mark for our industry leading Cannalytics business intelligence. This is double what it was in Q1. This tool has

already distinguished itself by allowing a growing number of clients to do macro and micro level analysis of a single dispensary in many cases or of a power aggregated view across large, vertically integrated geographically diverse operations as well.

The unique and changing nature of the industry has made data even more critical in the operation of licensed cannabis businesses across the country. In the second quarter, Helix clients were able to navigate the dynamics of operating businesses during the pandemic including understanding operators adjustment to curbside and delivery, regulatory impacts on inventory management, and the interplay between medical and adult use markets in this environment.

As part of this growth in our data platform, we introduced Cannalytics Cultivation filling an industry gap in data and helping Helix clients gain an operational edge in the marketplace. This is exciting for multiple reasons. As an industry first, it significantly increases our total adjustable market. But even more importantly it gives us a head start in developing deep insights and analytics into the entire supply chain.

Finally, we continue to innovate on route to the first truly end to end view of licensed cannabis operations from cultivation to enabling sophisticated data analysis of customer and patient behaviors and their needs as well as powerful sales and marketing tools to improve a businesses top and bottom line. This critical capability is being added in both commercial operators as well as among Helix's significant government regulator client base. Not only will this innovation help deliver on the promise of transparency and efficiency in the industry but will also reward Helix shareholders by claiming a dominant share of the cannabis and adjacent sector data market some estimate could approach a billion dollars or more in the next couple of years. Back to you Zach.

Zachary Venegas:

Thank you Garvis. Every member of the firm continues to be focused on building on our success to date to create the best products and the best company in the space. The results speak for themselves and have for quite some time. The leadership team is more confident than ever in our firm and its potential and we would like to thank as always our intrepid employees who are the engine that drives our performance despite the challenges in the last quarter and the vagaries of the capital markets. We look forward to continuing to lead the market and delivering value to our clients. I'll now stop and take some questions thank you.

Operator:

At this time if you'd like to ask a question over the phone line, please press the star and one keys on your telephone keypad. Keep in mind you may remove yourself from the question queue at anytime by pressing the pound key. And we'll pause for a moment to allow questions to queue.

Zachary Venegas:

We'd like to start our question and answer session by answering some direct email questions that have been popping up over and over over quite some time. And so I think it's a good way to start the question and answer section by attending to

those. So one of the first questions that we get and we get it quite often is, I'll read it verbatim. It says I'm looking to get more information related to how Helix is generating revenue. Is it per transaction, subscription, or a mix of both? Well in general for the government business it's more like a service agreement business so it is a by transaction and subscription is really only on the commercial side. That said, there are some aspects of the government business where it could be seen as a transaction base model once those markets further develop.

The software as a subscription business or or SAS as it's called in industry parlance, that's mostly our commercial side which is to say retailers and cultivators and manufacturers pay a monthly fee and receive the services of the software for that month and it's not based on transactions. So hopefully that answered that question which is to say we have a mix of both types of transactions within the model.

Another question we get quite often here is with regard to Spring Big, one of our partners that's on the platform. And the question reads specifically my understanding is that Spring Big has around 1,300 customers and you have 2,400 clients. Given that, will there be any cross marketing which the short answer to that is yes and it already occurs. And then also what percentage of Spring Big customers use Helix? So we have just over 200 locations that are both Spring Big and Helix technology customers so that answers that question.

Another very common question is around Cannalytics specifically which is to say the direct question is how large is the market for Cannalytics? And so we have to break that question down a little bit to say that's really asking how large is the market for data because Cannalytics has one set of business intelligence features that are out on the market now. But we continue to add more and so there'll be features that's added around cultivation. There'll be features added around general sales, already have one in the market but will continue to add to that. So each features that we add into the market creates data that can be used for another segment of the data market. So I would say conservatively I think says that the cannabis data market is around a billion dollars in any sort of rational or adult formulation of that. And so but it will take some years to get there and all. So that market I feel will be substantially larger than that once other users of beta come to the cannabis market once it's fully legal.

So and then another question is, and this will be the last one we address from the written questions before we take the phone in question if there are any. It says a year or so ago there was mention of a dual listing on the CFC. Can you explain why that plan was dropped and do you have any plans to do that in the future? Essentially so let me start by saying that is correct. We did have a plan to go into the CFC. And essentially we altered that plan just because of the market conditions at that time. So for example now, if given where cannabis capital markets are today, if we were looking to life that on the OTC which we're already listed on the OTC but were we to do that today we would probably say no we want to wait because we felt that the market conditions were tight and weren't going to be a great benefit to the company.

So that same scenario essentially happened back then. There were certain assumptions that we had that didn't seem like the right thing to do at that time was continue with that listing. Now that said, we continue to evaluate all possibilities for increasing our shareholder value and liquidity to include listing on a different exchange sometime in the future or an additional exchange sometime in the future and we'll make the appropriate announcements when the time comes.

So those are the five written questions I wanted to deal with on the call today. Do we have any dial in calls?

Operator: We do. We'll take our first phone question from Mark Stutman. Please go ahead your line is open.

Mark: Thanks for answering those questions. I just wanted to talk a little about the BioTrack I don't know if you discussed it earlier but in your slide presentation you mentioned that your focus is the large MSOs. Can you say what percentage of the current POS market are the top ten MSOs? And then what is your plan to address the more individual dispensaries?

Zachary Venegas: Sure. So I won't run down the list of MSOs just because that's a fairly complicated question about how we cut them up to say who the top ten MSO and plus we'd be very low to hurt anyone feelings if you knock someone off the list depending on how we cut it up. But what I will say is among the MSOs and when I say MSOs we mean Multi State Operators, not Multi Site Operators. So let's be specific there. I think it's a safe bet to say that we have more than half, so more than five of the top ten any way you'd cut it. So we are definitely the dominant software platform for the multi state operators.

Now, that said, we certainly are not going to forget about the individual operators, the smaller single sites, or multi-site operators within the same state. We still do focus on them and they get the same effort and in fact they benefit from the efforts that we make with the multi state operators because as we enhance and update our service offerings and product suites for them which are the most demanding users. Other people get that same benefit, we don't segregate and only give those features to the MSOs. So we will continue to address that. What we normally mean when we say we're focused more on the MSOs is those are development dollars and sales efforts and client service efforts to make sure the most demanding users are getting the service they require to expand as they like.

And then so what they really do is they enhance the experience and the features that will be individual of the retail operators because they get those benefits as well. And in the future, we may still begin to focus again on marketing to smaller retailers, depending on how the cannabis market shakes out and whether or not it becomes federally legal because of the certain pace of growth given that it isn't federally legal yet and when that picks up we will address that and continue to direct additional resources towards retail operators.

Mark: Okay that answers my question.

Operator: And as a reminder to ask a question, press the star and one keys. We'll take our next question from James Hendrin. Please go ahead your line is open.

James: Hey Zach how are you doing today?

Zachary Venegas: How are you doing nice to meet you.

James: I'm doing very well. I had a question so what do you think the timeline if you had a rough estimate is that you're going to go completely serverless to cloud based software?

Zachary Venegas: So I'm not sure ever will frankly. I think that the hybrid model is one that clients demand and not just a few because a lot of clients really want to have the control and the security and not just security around let's say hacking and things like that but also security of information in terms of availability of information that they just don't feel comfortable with a completely cloud based solution. So we kept the hybrid model alive for quite some time. Not out of any reason or requirement that we had to because obviously a cloud based solution that's like peanut butter and jelly. That's no innovation these days. But we've done it that way because some people demand a hybrid solution. So if they want to be only in the cloud we can accommodate them but if they also want to have some server based application of server based services we'll accommodate them there as well too.

So that'll go away completely when client demand no longer requires it. In terms of when that'll be, again I'm not sure because we haven't seen any slowdown especially among the larger clients for that hybrid solution.

Operator: And there are no further questions on the line at this time.

Zachary Venegas: Okay well then again let me thank again everyone who's taken the time to dial in today. We appreciate your time and attention and again let me say I'd like to thank the entire Helix Technologies team for producing the massive quarter that we just had. And everyone I hope you have a great day and be safe.