FlexShopper, LLC
Q4 and FY 2018 Earnings Call
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Operator: Greetings and welcome to the FlexShopper Fourth Quarter and Full Year 2018 Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. To be placed into question queue, you may press star one on your telephone keypad at any time to be placed into queue. If anyone should require operator assistance during the conference, you may press star zero to alert your operator. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Jeremy Hellman of The Equity Group. Please go ahead, Jeremy.

Jeremy Hellman: Thank you, operator. This presentation includes forward-looking statements that are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect our current views with respect to future events and involve inherent risks and uncertainties, which could cause actual results to differ materially from our historical experience and present expectations or projections as a result of various factors, including those risks and uncertainties described in the risk factors in a management's discussion and analysis of financial condition and results of operations sections of the Company's most recently filed annual report on Form 10-K and subsequently filed quarterly reports on Form 10-Q.

One can find many but not all of these statements by looking for such terms as belief, expect, hope, project, may, will, should, would, could, seek, intent, plan, estimate, anticipate, and similar terms. All statements other than statements of historical facts included during this conference call, including statements regarding our strategies, prospects, financial condition, operations cost, plans and objectives are forward-looking statements. I urge you to consider those risks and uncertainties in evaluating our forward-looking statements.

We caution listeners not to place undue reliance upon any such forward-looking statements, which represent our estimates and assumptions only as of the date hereof. Except as required by law, we undertake no obligation to update any forward-looking statement, whether written or oral that may be made from time to time, whether as a result of new information, future developments, or otherwise. We anticipate that subsequent events and developments will cause our views to change. With that, I would like to turn the call over to FlexShopper's CEO, Brad Bernstein. Go ahead, Brad.

Brad Bernstein: Thank you, Jeremy. And welcome, everyone, to our 2018 fourth quarter and full year earnings call. I'll start by providing several business highlights from the fourth quarter of 2018, as well as the full year, then I'll hand the call over to our CFO, Russ Heiser, who will discuss our financial results and balance sheet in more detail, and then I will return for some last comments before we open the line up to your questions.

Back in early January, we announced that our full year 2018 originations topped $58 million, led by an excellent holiday season. This result was well ahead of the guidance we provided on our last earnings call, providing us great momentum heading into 2019. A strong fourth quarter of lease originations capped off a record year for FlexShopper, as our top line revenue was $84.7 million, up 26.4% from last year. Adjusted gross profit for the year came in at $19.4 million, up 25.7%, and our adjusted EBITDA loss narrowed to $3.1 million. For Q4, our average cost to acquire a customer was $118 versus $198 last year. For the full year, our customer acquisition cost was $135 versus $194. Our success in reducing this cost was due to several factors, including continued optimization of our marketing and underwriting activities, coupled with a growing contribution from our B2B retail channel, which is a great source of lower acquisition cost customers for FlexShopper.

We added approximately 25,500 new customers in Q4, compared with approximately 17,500 in the year ago quarter. For all of 2018, we added approximately 52,300 new customers, up from approximately 31,400 in 2017. As a reminder, these new customers ultimately expand our returning customer base and our revenue potential going forward. As such, repeat customers continue to be a growing segment of our business and represented approximately 58% of lease originations in 2018, proving that our offering resonates with the consumers.

While approximately 85% of our lease originations in 2018 came from our direct to consumer channel, FlexShopper.com, we are continuing to see great progress with our business to business efforts, highlighted by a 730 tire store sort rollout that we completed in the third quarter of 2018. Well, for this success, we commenced the pilot with a separate 400 plus store tire chain that is performing very well. Each retail wins reaffirm the merits of our mobile lease to own technology that provide a quick and seamless process for retailers and consumers to transact on a lease to own basis. As a reminder, our method has key competitive advantages since it requires no equipment in stores and no integration in the retailers' point of sale system.

From start to finish, the lease to own transaction is executed through our mobile application and completed with the consumers entering a virtual credit card number at the point of sale to pay for the item. Our customer centric approach has been positively received, because retailers are always juggling many initiatives to a program that requires no integration, and minimum employee effort is very attractive. Logically, in 2019, we are actively targeting tire stores and promoting the strategy heavily. We also want to build a diversified portfolio of retail verticals, so we are also targeting furniture retailers, which are traditionally focused of lease to own companies.

I'd also like to provide an update on our third lease origination channel, which is our patented lease to own payment method at checkout on third party ecommerce sites. The significant potential of this channel is best illustrated by a 2018 success story. In May 2018, the fast growing online bed in the box company contacted us to help save or convert their primary credit providers 1000 plus credit declines per month into sales.

We integrated within 60 days and declined customers were directed to apply in check out with FlexShopper. Today, that e-retailer is saving approximately two million in annualized sales with FlexShopper, which also represents incremental lease originations for FlexShopper at a very low acquisition cost. Hence in 2019, we are also heavily targeting similar e-retailers with our payment methods solution. I’m now going to hand the call over to Russ Heiser, our CFO, to discuss our financial performance and metrics in more detail and our 2019 outlook. Then, I have some commentary before we open the call for some questions.

Russ Heiser: Thanks, Brad. On the third quarter call, I explained how prior year originations are great predictor of current year revenue and gross profit. Let me take some time to point out those updated numbers for 2018 and what they mean for 2019 guidance, and then walk through a few pages of our new investor presentation.

The bottom left of page 15 of the investor presentation, choosing the lowest or most conservative trailing revenue multiple of 1.9x, multiplied by the 2018 gross originations of 58 million is expected to generate 110 million of revenue in 2019. On the bottom right of page 15, the trailing gross profit multiple of 0.44x multiplied by 58 million in 2018 gross originations is expected to generate 25 million of gross profit in 2019. Therefore, guidance for both of those metrics has been revised higher since FlexShopper outperformed the 2018 lease origination forecast by approximately $6 million.

In addition, as can be seen on page 18 of the investor presentation, management has also raised minimum EBITDA guidance to 3.5 million. Moreover, we have given initial guidance on 2019 originations and we expect greater than 70 million of leases this year. Moving back to page 16 of the presentation, historical cash on cash returns for our lease pools continues to remain above our benchmark of 1.4 x and produced annualized gross profit margins of approximately 30%.

Turning to page 17, touches on some points that Brad made in his opening remarks. FlexShopper’s current customers continue to repeat frequently, as seen in the chart on the left, which is a testament to the relevance of the FlexShopper offering for our customers. This, coupled with steadily decreasing customer acquisition cost is shown at the bottom of the page, translate into the marketing efficiency metrics on the right of the page, showing the each dollar that FlexShopper spends on marketing continues to produce at least $2.8 of future gross profit.

Before I hand the call back to Brad, I'm going to quickly cover a subject that is a recent recurring theme in investor questions. The topic is lease origination seasonality and how it affects our quarterly financial statements. The synopsis is that there's a vast difference in how a fourth quarter looks versus the first quarter as a result of the holiday period seasonality. As can be seen in the financial and operating summary on page 19 of the presentation, the fourth quarter is responsible for approximately 50% of the lease originations for the calendar year. If given that most of those originations are in the last six weeks of the quarter, from Thanksgiving until Christmas, the fourth quarter doesn't show three full months of the revenue from all of those holiday originations. However, the fourth quarter does show approximately 50% of the full year's marketing expense. In other words, lower revenue representation plus higher seasonal marketing expense results in reduced EBITDA in the fourth quarter.

On the other hand, the first quarter strongly benefits by recognizing a full quarter of the revenue from the holiday originations and historically has the lowest quarterly marketing spend of the year. In other words, full revenue representation of holiday leases and seasonally lower marketing expense will produce a large portion of the EBITDA for the full calendar year. As you might expect, the second and third quarters fall in between the extremes represented by the first and fourth quarters. Here's Brad for some final thoughts.

Brad Bernstein: Thanks, Russ. In closing, we believe 2019 is a pivotal year for the company, one where we balanced growth with achieving our guidance and delivering on top line and bottom line results. We believe our focused omni-channel growth strategy and scalable model, combined with prudent management, will ensure long term sustainable and profitable growth. With that, we'd be happy to take your questions. Thank you.

Operator: Thank you. We will now be conducting a question-and-answer session. If you would like to be placed in the question queue, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, that's star one if you'd like to ask a question at this time. One moment, please, while we pull for questions. Our first question today is coming from Richard Deutsch from National Securities. Your line is now live.

Richard Deutsch: Yes, thank you for taking my call, and congratulations on really having a spectacular breakout year this past year. How many total customers do you have currently?

Brad Bernstein: Yeah, so, we've served--we're approaching over 300,000 leases. And by the way, thank you, Rick for the question, and I appreciate your good sentiments. We're approaching 300,000 leases done since inception and over 150,000 customers--people have been served from the time we opened our doors.

Richard Deutsch: So 150,000 customers on that average two purchases so far?

Brad Bernstein: Effectively, that would be the average.

Richard Deutsch: Okay, because I want to keep an eye on that metric as number of customers drives everything forward. Is that right, Brad?

Brad Bernstein: Oh, absolutely. So, one of the things that we've been able to replicat-- rent to own is a six year old business, brick and mortar based and for 60 years, rent to own in the stores has been highly repeat. We've been able to replicate in an online fashion, and, obviously, once the consumer does a lease at FlexShopper.com, we constantly remarket to them. So, we've proven that online is a repeat business, but we've also only proven it, because obviously we have a value proposition and offering that's resonating with consumers, and, from our perspective, this is better than going to a brick and mortar store.

Our mission is to allow this consumer to shop for what they want, where they want ,and to enable them to have the quality of products and brands that everyone else can get. And so, we feel that that, obviously, is really resonating with consumers. Obviously, we continue to target these consumers once their customer, but also being only five years old, the lifetime value of our customer continues to grow.

Richard Deutsch: Okay, I understand that. Thanks for the more detail. Going forward though, like Netflix and Facebook and Amazon, if you could provide us with a regular quarterly update on the number of total customers you have, I think that'd be very helpful as we can use that metric as an additional asset going forward. I'm going to have one other question and go back into the queue. As you develop more and more and more customers and get to know their shopping habits, is there a model that you might have going forward in terms of doing some advertising like Google and Facebook. And just wondered if that was somewhere in your strategy going forward?

Brad Bernstein: Oh, actually, it's been our strategy. We’ve become very proficient in the last two years, particularly with Google online in terms of acquiring customers. And, in fact, for

FlexShopper.com, digital is now half our lease originations. And what's been great is since then, we've really optimized it. So, in fact, we've actually in-housed, creating our own bidding platform, and we're able to get, particularly in the seasonal periods, the fourth quarter where there's high demand, customers that are targeted acquisition costs, and you could see how nicely the company’s done for our overall acquisition costs declining from a year ago from $194 to $135.

So--and getting back also to your original point, I think that's a good point in terms of customer metrics and just want to kind of pronounce again, you could see for the full year last year, the significant new customer growth we had--just to repeat those numbers, we added approximately 52,300 new customers compared to approximately 31,406 in 2017. So, very healthy new customer growth, 58% of our business was repeat, very healthy repeat business. And then, if you couple that with, as I said, the business to business strategy with a heavy focus now on, obviously, tires where we feel we have a competitive advantage with our model, we feel great that that's kind of the gravy and can accelerate our business.

Richard Deutsch: Alright, well, thanks for that. I'll go back in the queue. Thank you.

Brad Bernstein: Thank you, Rick.

Operator: Thank you. As a reminder, ladies and gentlemen, if you'd like to be placed into question queue, please press star one on your telephone keypad. Our next question is coming from Walter Schenker from MAZ Capital. Your line is now live.

Brad Bernstein: Hi, Walter. How are you?

Operator: One moment, please, while we repull. If you'd like to rejoin, please press star one again, Walter. Our next question--I'm sorry, our question's coming from Walter Schenker from MAZ Capital. Your line is now live.

Walter Schenker: Can you hear me?

Brad Bernstein: We can hear you, Watler.

Walter Schenker: Good. In regard to your newer tire customer--customers, is it too early to know yet whether the default loss ratio is substantially lower than it is for things like TVs or furniture in that it's part of a car, and it's not something people can afford to jeopardize?

Brad Bernstein: Yeah, thank you, Walter, for the question. So, yeah, I can currently state that tires perform better. We haven't disclosed that performance by that segment, but I can clearly state that we're very happy. In store tires, we’re getting higher approval rates and the portfolio performs well, much like actually our repeat customer rather than a new customer.

Walter Schenker: Okay. And second question. I was somewhat surprised that when you raised the 2019 guidance on a gross basis by 5 million, which on a net basis might be 3 million, but when you talked about your gross profit incremental contribution, I would have thought $5 million, or however you want to scale it down, would have been more like $1 million dollars of incremental, instead of 0.5 million. I realize you want to be conservative, but once you take revenues up 5 million, I would have thought that contribution would have been higher.

Russ Heiser: Hey, Walter, this is Russ. I think that we wanted to stick with the sort of representations we've made in the past in terms of using the trailing originations and, essentially, the historical sort of relationship between originations and then future revenue and gross profit to, at this stage, use that to choose our guidance. And then, obviously, as we work out further into the year, as you saw, we chose the most conservative representation, essentially the lowest of those multiples to base our guidance on. As we continue to go out year through the year, we'll have additional information to be able to potentially change that guidance going forward.

Walter Schenker: Okay, thank you very much.

Brad Bernstein: Thank you, Walter.

Operator: Thank you. Our next question today is coming from Simon Panosh from Russian River Captial [sp]. Your line is now live.

Simon Panosh: Hi, Brad. Congratulations on exceeding your guidance for the full year.

Brad Bernstein: Thank you, Simon.

Simon Panosh: So, first question, just looking at your 2019 guidance. Can you kind of back into how you came up with the 70 million lease originations number?

Russ Heiser: Sure, this is Russ. We essentially know based upon the amount of repeat customers we have, how quickly those repeat, and the repeat curves that they represent from both a dollar perspective and a time perspective how quickly combined with what we see as our planned marketing expenditures in 2019 and what that means for new customers, we're able to come up with, essentially, what represents a fairly conservative 20% increase in originations versus the prior year. So, once again, similar to the last response, I think we want to be prudent with our guidance. And--but that's essentially how we back into the 70 million, 20% approximately higher than what we ended up with in 2018.

Simon Panosh: And did that account for your retail wins--or how does the retail wins and kind of retail pilots fit into that estimate?

Russ Heiser: So, we count the wins once they're sort of once they're in the book. As Brad mentioned, we have ongoing--a number of ongoing pilots, I think, that as those hopefully expand into full rollouts, we'll see that guidance increase.

Simon Panosh: That makes sense. And then second question, just looking at your debt picture going forward, I know you have some debt due kind of in the middle of the year, I believe at the end of June, and you have some high interest rates right now. Do you see any opportunities to kind of either reduce that debt or possibly refinance and reduce interest rates, as you kind of start to generate some positive EBITDA?

Russ Heiser: I think we're always looking to find ways to reduce that interest rate. I think that as you know, the--or may know, the rate that we pay this subordinated debt was built into our original credit facility a year and a half ago. So, there's--so that rate is somewhat fixed. I think as we go and look in the future, we'll obviously,--through a couple of different means that we've not yet disclosed, we'll hopefully end up in a position with lower total interest expense. It's not a overnight process, just to be clear, but we definitely always look and see how we can minimize that component.

Simon Panosh: That makes sense. That's it from me. I'll just back in the queue.

Brad Bernstein: Thank you, Simon.

Operator: Thank you. And now let's turn the call back to management for closing remarks.

Brad Bernstein: Thanks, everybody. Thank you for joining us today. We're very excited about 2019, and we look forward to speaking with each of you again on our first quarter earnings call. Thanks again.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.