FlexShopper, LLC
Q3 2019 Earnings Call
November 5, 2019

Presenters
Brad Bernstein, Founder and President
Rich House, CEO
Russ Heiser, CFO

Q&A Participants
Aaron Frose - Money Team Investments
Richard Deutsch -National Security
Gustavo Rodrigo - Westpark Capital
Theodore O'Neill – Ascendiant Capital Markets

Operator
Greetings, and welcome to the FlexShopper third quarter 2019 earnings conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If you would like to queue a question at that time, please press star one on your telephone keypad. We do ask that you limit yourself to one question and one follow-up and then requeue for additional questions. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Jeremy Hellman of the equity group. Thank you, sir. You may begin.

Jeremy Hellman
Thank you, operator. I would like remind everyone that we have posted an updated investor presentation within the IR section at the company website, www.flexshopper.com, and encourage everyone to review the forward-looking statement on page two of that presentation. With that, I would like to turn the call over to FlexShopper's founder and President Brad Bernstein. Please go ahead, Brad.

Brad Bernstein
Thank you, Jeremy, and welcome, everyone, to our 2019 third quarter earnings call. Joining me today are Rich House, our new CEO, and Russ Heiser, our CFO. I want to take this opportunity to formally introduce Rich to all of our investors and analysts. Rich came aboard a month ago and is a great addition to our executive team. With our beasty (sp) retail channel kicking in, our surpassing a critical inflection point in lease originations and our continued significant growth, the company recognize that the executive leadership team needed additional bench strength. Rich brings significant knowledge and experience in the consumer credit arena, and I look forward to working with as we continue to grow our company.

Now, on to the highlights from Q3. In short, our third quarter was a solid continuation of the excellent momentum recorded throughout the first half of the year. We continue to originate leases at a robust rate, with net lease revenues following that growth as everyone familiar with our model might expect. We coupled that topline growth with excellent margin performance in the quarter, resulting in another quarter of positive earnings of $800,000, or $.02 per share. That also translated into adjusted EBITDA of 3.2 million for the third quarter and $7.2 million for the nine month period. Both of those figures are ahead of our expectations and guidance as our B to B (sp) retail channels lease performance positively impacted our lease portfolio performance and overall company performance.

We originated 38% more leases in the third quarter of 2019 by gross origination dollars for the same quarter last year. Driving that growth was a combination of repeat customers, along with new customers, particularly who are B to B partners. For the trailing 12 months ended September 30, 2019, our B to B retail channel contributed approximately 33% of all lease originations, compared to approximately 10% in the same period a year ago.

During the third quarter, we again lowered our averaged cost to acquire a customer to $67 from the prior year when it was $133. Our overall acquisition cost continue to benefit from the growth in our B to B need retail channel, which is a great source of lower acquisition cost customers for FlexShopper. Repeat customers represented approximately 40% of lease originations in Q3 2019. This also helps to drag down our customer acquisition costs while providing strong validation of the value we bring to our consumers.

As we mentioned on prior calls, we are very focused on capitalizing on our B to B retail momentum. We're confident that our successful track record, integrationless (sp) retailed approach with immediate payment at the point-of-sale and formal B to B marketing efforts made by our experience business development team will pay significant dividends. I'm now going to hand the call over to Russ Heiser, our CFO, to discuss our financial performance and provided an update on our 2019 outlook. Then, Rich will conclude with our prepared remarks with some mild commentary before we open the call for questions.

Russ Heiser
Thanks, Brad. We had a number of investors joining us this morning, so I want to mention to them that have spent the last few calls walking through revenue recognition changes and explanations around both the seasonality and forecasting originations in our online channel. So, please review those transcripts regarding those topics. However, I do want to take a moment to reiterate the impact of the B to B channel on our current business. As Brad mentioned, the B to B channel in which we primarily provide lease to own offerings to retail partners has grown rapidly this year. In fact, in the third quarter represented a majority of our new customers. Given the high growth in this relatively new channel, we are still taking a very conservative position when it comes to our projections on revenue, gross profit, and EBITDA until we've gathered sufficient data on the longer-term origination and repeat rate, as well as a lease performance in this part of our business.

I also want to take a minute to highlight a few comparative results. For the first nine months of this year versus the first nine months of 2018, gross lease originations, which are what drive subsequent year or next year's revenue, next year's revenue growth increased 13.9 million, an increase of 45%. Net lease, revenues, and fees you rose 52.7% to 64 million. This is even higher than origination growth the first nine months of last year of approximately 47%. Gross profit increased 64.5% to 21 million from 12.8 million as the company continues to finetune underwriting to deliver even better results.

And adjusted EBITDA grew to 7.2 million compared to -2.3 million as the benefits of this scalable business model continue to be realized. This net income of 1.6 million compared to a loss of $7 million. For the third quarter of this year versus the same quarter of 2018, primarily wanted to highlight profit margin driving the periods improved performance. This can be seen in the key performance section of the MD&A (sp) in the 10-Q where we generated a 37% gross profit margin versus 30% last year. Those of you that have followed FlexShopper know that our gross margins had tend to be pretty stable on the low 30%. The biggest factor in our improved gross margin was a lower delinquency rate in leases we have originated through our retail partners.

I would now move on to discuss changes to management's guidance. As shown in our press release, we are gaining (unintelligible) guidance and now expect gross revenue of greater than 115 million, adjusted gross profit greater than 27.5 million, adjusted EBITDA greater than 8 million, and gross originations greater than 72 million. Here is Rich for some final thoughts.

Rich House
Thanks, Russ, and thanks, Brad, for that nice introduction. It's been exciting for me this month, coming in to immerse myself in these operations. Great group of people here, and I want to applaud Brad for his leadership and building FlexShopper to where it is today.

As our third quarte results show, our business has passed an inflection point. And, as we look ahead to the holiday shopping season and into 2020, my main priority is centering our business with a very disciplined focus on return on capital. Over the past five years, FlexShopper's established itself as a market leader in the virtual lease to own space. Going forward, we'll look to leverage that leadership, and you can expect us—for me to emphasize bottom line profit building in the form of return on capital as an enduring business objective.

Simply put, it's still not enough to just put leases on the books. What we're targeting is the intersection where we originate the maximum number of leases but also provide an expected positive incremental return RN (sp) investment in share holds capital. And overtime, we'll share more detail around those metrics. And with that, we'd be happy to take any of your questions.

Operator
Thank you. Ladies and gentlemen, at this time, we will be conducting the question-and-answer session. Once again, we ask that you please limit yourself to one question, then one follow-up,

and then requeue for any additional questions. If you would like to ask a question, please press star one on your telephone keypad. The confirmation tone will indicate that your line is in the question queue. You may press star two if you would 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. One moment, please, while we pull for questions. Thank you. Our first question comes from Aaron Frose (sp) with Money Team Investments. Please proceed with your question.

Aaron Frose
First of all, congratulations on the blowout quarter. And my question is how were you able to cut the cost to acquire a new customer in half, and what do you project that it will be next year?

Brad Bernstein
Yeah, so, I'll start with that one. And, Aaron, thank you for the kind words. So, for those of you that have been following our model and our history, you can clearly see that, year-over-year, we have gained a lot of experience and sophistication in terms of optimizing and lowering our acquisition cost, primarily through digital online methods. But what you're also seeing contributing in the last 18 months is the impact of lower acquisition costs B to B retail sales, which obviously have a powerful influence on that.

So, we're really proud of what we've achieved just in terms of optimizing our online direct to consumer channels, but, at the same time, we're also really proud that we've got our B to B channel kicking in, which is a lower acquisition channel. You can see in the third quarter our customer acquisition costs was at a long time low. How low that gets, we havn't really given any guidance on where—how low that can get.

Arron Frose
Alright. I appreciate it. Thank you.

Brad Bernstein
Thank you.

Operator
Thank you. Once again, ladies and gentlemen, to queue a question, please press star one on your telephone keypad at this time. Our next question comes from the line of Richard Deutsch (sp) with National Security. Please proceed with your question.

Richard Deutsch
Yes, thank you for taking my call, and, Richard, welcome to the team. We're very excited to bring on your experience and help you accelerate the growth into the future. Brad, sterling (sp) quarter, just absolutely outstanding, and even shocking for somebody that follows the company so closely. Could you give us a little detail, though, on the explosive growth on B to B having not

seen any announcements of any need teams coming on board? Can you give us a little color on exactly where that growth came from, and what's in the tank right now?

Brad Bernstein
By the way, thank you, Rick, for your kind words, too. I think the best way to look at it is that what's being experienced in our performance and the numbers is the maturity of a lot of our retail wins that occurred this year. Let me also just say that we feel very strongly about the pipeline. In fact, we were continuing to make investments in our business development team will be. We have had some new hires in the third quarter, because, obviously, we recognize the opportunity, and we feel very confident about capitalizing on it.

But to answer your question best, not only do we feel good about the prospects in the pipeline and is going to pay dividends, but what you're seeing is immaturity and optimization that's occurring in what we've acquired. So, it's just not only adding these accounts, but it's actually executing properly. And what you're seeing is the fulfillment a fantastic execution by our team in the field. And I can tell you that these stores that we have put on, from the time we put them on to today, they continue to grow for us. And that is a true partnership between us and our retailed partners and the fact that we're executing in a very sound fashion. And, obviously, most importantly, that is reflected in our portfolio performance and in the bottom-line performance of the company. So, let me add to that, we absolutely see the opportunity—as we've always said, when it comes to B to B, some of these things come on fast, some of them come on slow. But I will continue to say, our pipeline is healthy, and we're confident that it will pay dividends.

Richard Deutsch
So, Brad, are you saying that your existing customers that came on early are just continuing to be better as opposed to adding on a lot more doors? Is that what you're saying?

Brad Bernstein
I'm saying we added on--in the second quarter, we added on probably another 400 stores. They hadn't reached optimization and maturity yet. Those were an additional 400 plus stores, right. So, now, not only have they open rolled out for a couple of months, but we continue to execute and get more out of those stores in the partnership. And we continue to add doors (sp). Have we announced another couple hundred store rollout? No. But, as I continue to say, that doesn't mean that is not the pipeline, and we feel very confident in that. Again, some of these retail wins happen fast, and some of them are more slowly and premeditated. But—and we continue to make investments. Obviously, we feel we have a great model, and that's what's getting traction. So, we're continuing to make investments in our directive business and business development pipeline and also continuing to optimize what we have.

Richard Deutsch
Alright. Well, that's real helpful. That answers that big question mark on your giant increase and margins and customer acquisition cost. So, I'm going to use my follow-up question for the other

part of your business. You've got the customers. You've got the businesses. But then you put on a payment option. And, if I recall last quarter, the checkout payment option for FlexShopper was about 10% of your revenues. Can you give us a little color on what your experience is? What you expect to—what's happening there? Because that is also another extremely exciting low-customer cost acquisition, high margin business.

Brad Bernstein
Rick, it's incredibly exciting. And we actually have very focused targeted campaigns to third-party ecommerce companies to use our payment method. And we're going after those every day. Now, when you look at the 10% as the mix of our whole business, it's 10% of a larger number. So, that business is growing, also. So, obviously, 10% of a smaller number is a smaller number that's 10% of a larger number. But obviously our mix of business is getting healthy in terms of more retail and also a healthy amount of direct to consumer and repeat business from there, also.

Richard Deutsch
So, I haven't looked at your new presentation, but the payment options, I would just guess that that may be the lowest customer acquisition costs. Can you compare customer acquisition costs through that as opposed to B to B?

Brad Bernstein
Well, that is a B to B channel, because it's on a third-party ecommerce site, but I would say that a third-party ecommerce site has the lowest acquisition costs. Retail in the store the second lowest, and then obviously comes to our direct to consumer. Rick, I'm glad you asked the question, because you're touching on all our channels, and that is what really makes us unique as a company. We are the Omni channel virtually lease to own company. We've got our marketplace direct to consumer are in-store, which, obviously, which in our 18 month has really taken off. And then we've got a payment method of check out on a lease to own basis, which we did had patents on for third-party ecommerce sites. So, thank you for bringing that up so I could refresh everyone that we are the only pure Omni channel virtually lease to own player.

Richard Deutsch
Well, thanks, again. And I just want to end my comments by repeating something you mentioned to me early on that getting people to you is--your system in the first place is really, really hard. After their experience in saving the sale and increasing their revenues, it's hard not to get new customers. So, congratulations. I look forward to following you and Richard's progress going forward. Thanks a lot.

Brad Bernstein
Thanks, Rick.

Operator

Thank you. Again, ladies and gentlemen, if you would like to queue a question at this time, please press star one on your telephone keypad. Please hold while we pull for any additional questions. Thank you. Our next question comes from Gustavo Rodrigo with Westpark Capital. Please proceed with your question.

Gustavo Rodrigo
Good morning, gentlemen. Congratulations on a wonderful quarter. My question is in regards to your outstanding share model. There's been some chatter as of recent as far as the warrants are concerned. Do you guys have the ability to call those at any point that you wish?

Brad Bernstein
No, the warrants are not callable.

Gustavo Rodrigo
Okay. And it looks like you guys are down to about 3 million in cash. Is that correct?

Brad Bernstein
3 million in cash on the balance sheet, but there's availability under our credit facility—additional availability.

Gustavo Rodrigo
Up to what?

Brad Bernstein
We have about $2 million right now.

Gustavo Rodrigo
Okay. Wonderful. Okay. Do you guys see any—obviously you're not to talk about it, but do you see any need to raising additional capital in going forward in the future?

Brad Bernsteinour
Our plan is, as we've mentioned in the past, is to continue to not look towards equity capital anytime soon.

Gustavo Rodrigo
Perfect. All right, well, thank you very much. I appreciate it. Congratulations, again, on fantastic quarter. Amazing.

Brad Bernstein
Thank you.

Operator

Thank you. Our next question comes from Theodore O'Neill with Litchfield Hills Research. Please proceed with your question.

Theodore O'Neill
(Unintelligible) capital markets. Thank you. Congratulations on a good quarter, and I was wondering if you get us some insight into what sort of products or what segment is driving your lease originations right now?

Brad Bernstein
Well, we haven't disclosed that. As you know, we have made—we haven't disclosed the mix, but we certainly have made headway in the—on entire side. And, at the end of the day, the in-store model, whether it's furniture, tires, or anything else, is the performance curves are better than online. And that's what you're seeing in the numbers.

Theodore O'Neill
Okay. Thanks very much.

Brad Bernstein
Thank you.

Operator
Thank you. As a final reminder, ladies and gentlemen, to queue a question at this time, please press star one on your telephone keypad. There will be a confirmation tone that will indicate that your line is the question queue. Please hold while we pull for additional questions. Thank you. It appears we have no additional questions at this time, so I'd like to pass the floor back over to Mr. House for any additional concluding comments.

Richard House
Well, thank you, everyone, for joining us, and we look forward to continuing the successful run that Brad and Russ have started. And I look forward to meeting some of you investors in the near future. Thank you very much.

Operator
Ladies and gentlemen, this does conclude today's teleconference. Again, we thank you for your participation, and you may disconnect your lines at this time.