



BITCOIN DEPOT

2Q 2023 Earnings Call Transcript

Monday, August 14, 2023

Company Participants

Brandon Mintz - CEO

Glen Leibowitz - CFO

Scott Buchanan - COO

Alex Kovtun - IR

Conference Call Participants

Michael Colonnese - H.C. Wainwright

Kevin Dede - H.C. Wainwright

Michael Kupinski - Noble Capital Markets

Operator

Good morning and welcome to Bitcoin Depot's second quarter 2023 conference call. My name is Jordan, and I will be your operator today.

Before this call, Bitcoin Depot issued its financial results for the second quarter ended June 30, 2023, in a press release, a copy of which will be furnished in a report on Form 8-K filed with the SEC and will be available in the Investor Relations section of the company's website.

Joining us on today's call are Bitcoin Depot's CEO - Brandon Mintz, CFO - Glen Leibowitz, and COO - Scott Buchanan. Following their remarks, we will open the call for questions. Before we begin, Alex Kovtun from Gateway Group will make a brief introductory statement.

Mr. Kovtun, please proceed.

Alex Kovtun

Thank you, operator. Good morning everyone and welcome to Bitcoin Depot's second quarter 2023 conference call.

Before management begins their formal remarks, we would like to remind everyone that some statements we're making today may be considered forward-looking statements under securities laws and involve a number of risks and uncertainties. As a result, we caution you that there are a number of factors, many of which are beyond our control, which could cause actual results and events to differ materially from those described in the forward-looking statements. For more detailed risks, uncertainties and assumptions relating to our forward-looking statements, please see the disclosures in our earnings release and public filings made with the Securities and Exchange Commission. We disclaim any obligation or undertaking to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made, except as required by law. We will also discuss non-GAAP financial metrics and encourage you to read our disclosures and the reconciliation tables to applicable GAAP measures in our earnings release carefully as you consider these metrics. We refer you to our filings with the Securities and Exchange Commission for detailed disclosures and descriptions of our business, as well as uncertainties and other variable circumstances, including but not limited to risks and uncertainties identified under the caption 'Risk Factors' in our recent filings. You may get Bitcoin Depot's

Securities and Exchange Commission filings for free by visiting the SEC website at www.sec.gov.

I would like to remind everyone that this call is being recorded and will be made available for replay via a link available in the investor relations section of Bitcoin Depot's website. A supplemental earnings presentation highlighting our Q2 performance has also been made available on our IR website.

Now, I will turn the call over to Bitcoin Depot's CEO Brandon Mintz. Brandon?

Brandon Mintz

Thanks, Alex, and good morning, everyone. It's an exciting moment for us to be hosting you for Bitcoin Depot's first earnings call as a public company after closing our business combination with GSR II Meteora Acquisition Corp. and listing on the Nasdaq in early July.

Before sharing some recent highlights, I want to briefly introduce the company for those of you who are new to our story. I started Bitcoin Depot in 2016 after having difficulty in purchasing Bitcoin from an online exchange. The experience was extremely frustrating and ultimately after a few weeks I still didn't have my Bitcoin. I found another way to buy Bitcoin with cash that was easier, quicker, and more secure, which ultimately inspired me to start Bitcoin Depot. We started the company with just a few machines and have expanded our footprint over the last seven years to become the largest Bitcoin ATM operator in North America with approximately 6,350 kiosk locations across 49 U.S. states and 10 Canadian provinces, supporting approximately 24,000 monthly active users.

Our mission is simple: we aim to bring Bitcoin to the masses. We do this by allowing users to convert cash to Bitcoin at our kiosks or at thousands of name-brand retail locations through our BDCheckout offering, which is our no hardware solution. Since 2016 we have completed \$1.7 billion of total transaction volume and over \$2.9 million in transactions, and these figures continue to grow as we expand our footprint.

Let me now talk about our users and why they use our products to purchase Bitcoin. We primarily support the cash-based economy and the underbanked population in very convenient ways. According to survey data, about two thirds of our users say that they're purchasing Bitcoin to be able to use it for online purchases and money transfer or remittances. So, many of our users either don't have bank accounts or choose not to use bank accounts, which limits their ability to purchase Bitcoin from an online exchange. This really just shows that the customer base for Bitcoin Depot is very different than that of an online exchange. We know that underbanked and unbanked users in the cash economy have to physically go out many times to use services such as prepaid cards, bill pay kiosks, money remitters, or check cashing services to manage their financial needs. But now people in this population segment can efficiently complete nearly all of those alternative financial services transactions from smartphones using Bitcoin. We also offer amazing customer support that is very quick to respond over email, over text, or phone calls and chat, so we really provide a more personalized and quick experience than many other industry options to purchase Bitcoin.

The process for purchasing Bitcoin through our kiosks or our BDCheckout program is very simple and users will have access to their purchased Bitcoin in minutes. For users at our kiosk locations, they complete kyc verification, scan their QR code from their bitcoin wallet app,

using the Bitcoin Depot app or another bitcoin wallet of their choice, insert cash and then the user will receive Bitcoin to their wallet immediately. We of course recommend the Bitcoin Depot wallet because it is completely self-custodial, which means we don't maintain custody of user's funds within this wallet, only the user has access to their Bitcoin. The process for BDCheckout is also really straightforward. Users first download our mobile app, place an order to buy bitcoin, complete kyc verification, generate a barcode on the app and scan it at the register, hand over cash and then convert to Bitcoin in their Bitcoin Depot wallet app.

We've seen meaningful customer engagement since 2016 and our median transaction size has increased quite rapidly as well. During the second quarter, the median transaction size was \$200, which is an 18% increase compared to the second quarter of 2022. We typically see our kiosks ramp up in volume over time as they continue to attract customers and generate additional volume. From our kiosk cohort analysis, we've found that transaction volumes have accelerated from their first year in operation and this is a trend we continue to see with our new deployments from relocated kiosks as well. This engagement has also translated to very strong revenue growth as we delivered record quarterly revenue at \$197.5 million in revenue for the second quarter, an 18% increase compared to the second quarter of 2022. Importantly, at 19%, we continued to maintain our industry-leading market share.

Customers are attracted to the accessibility and user experience of our Bitcoin ATMs as an entryway into the broader digital financial ecosystem. Our kiosks are located in convenient locations across the country through existing partnerships with 40 major retailers including major national and regional retailers. Our largest retail agreement is with Circle K where we're in close to 1,500 of their stores. But with Circle K operating in roughly 15,000 stores globally, there's a lot of room to grow within this retailer. In addition to our kiosk footprint, we also allow consumers to purchase Bitcoin right at the counter at approximately 5,200 participating retail locations through our BDCheckout program. We offer this service through a partnership with a leading global payments supplier and it allows us to expand our access points without deploying a physical kiosk. In aggregate, our kiosks and BDCheckout access points are located in zip codes addressing over 51% of the US population today. Ultimately, our goal is to become the most trusted, quickest and most efficient way to purchase Bitcoin with cash across the largest network of retail locations possible.

Our current pipeline of expansion opportunities remains very strong. Over the last several months we've announced multiple partnerships with convenience store brands and recently expanded our BDCheckout program into two additional states.

We're excited about the numerous growth opportunities ahead and are well-positioned to support mass crypto adoption as the world's leading Bitcoin ATM network. I'll now turn things over to our CFO, Glen Leibowitz, to update you on our financial performance and business outlook. Glen?

Glen Leibowitz

Thanks Brandon and good morning, everyone.

Revenue for the second quarter of 2023 increased 18% to \$197.5 million compared to \$167.9 million for the second quarter of 2022. The increase was attributable to higher transaction size and customer acquisition.

Gross profit for the second quarter of 2023 increased 73% to \$24.0 million compared to \$13.9 million for the second quarter of 2022. Gross margin in the second quarter of 2023 was 12% compared to 8% in the second quarter of 2022.

Adjusted gross profit, a non-GAAP measure, for the second quarter of 2023 increased 62% to \$30.2 million compared to \$18.7 million for the second quarter of 2022. Adjusted gross margin in the second quarter of 2023 was 15% compared to 11% in the second quarter of 2022.

Turning to total operating expenses for the second quarter of 2023 were \$22.4 million, which included \$16.2 million in other selling, general and administrative costs, and \$6.3 million of depreciation and amortization expenses. For the year-ago comparable period, the operating expenses were \$12.0 million. We saved about \$2.0 million in software licensing fees during the second quarter through our acquisition of BitAccess, which equals about 1% of our revenue.

Turning to net loss. Our GAAP net loss for the second quarter of 2023 was a loss of \$6.1 million compared to net income of \$4.1 million for the second quarter of 2022.

Adjusted EBITDA, a non-GAAP measure, for the second quarter of 2023 increased 63% to \$21.0 million compared to an Adjusted EBITDA of \$12.9 million for the second quarter of 2022. The improvement was driven by higher revenue and an improvement in margins. Adjusted EBITDA margin in the second quarter of 2023 was 11% compared to 8% in the second quarter of 2022.

Lastly, on our balance sheet, we ended the second quarter with approximately \$27 million in cash and cash equivalents and \$36 million in debt. As part of the completion of the business combination, we have reduced our debt in half and are now less than 1.0x net debt to EBITDA.

Turning to our guidance, which is unchanged from what we introduced in our preliminary Q2 results press release in July. Based on current market conditions, we expect revenue in 2023 to range from \$700 million to \$730 million, which is an 8% to 13% improvement compared to revenue of \$647 million for full year 2022. We expect Adjusted EBITDA in the range of \$56 million to \$59 million, representing a 37% to 44% increase in Adjusted EBITDA year-over-year.

That completes my financial summary. I'll now pass it over to our COO, Scott Buchanan to discuss our growth strategy. Scott?

Scott Buchanan

Thanks Glen. We're excited about the growth opportunities ahead and are focused on three main priorities:

First, we continue to improve profitability through the relocation of our kiosks to new locations with lower rent and higher customer traffic which continues to reduce expenses while driving higher transaction volume. We've expanded our marketing efforts and are driving customer acquisition to our kiosks which resulted in 31,000 new customers in the second quarter of 2023. Importantly, we continue to see revenue growth with the same fleet of kiosks as we haven't deployed any incremental kiosks since 2021. We also continue to

focus on enhancing vendor pricing and optimizing the markup for customers to enhance our margins.

Second, we are continuing to pursue additional licenses and expanding BDCheckout as part of our compliance initiatives. During the second quarter we added several state money transmitter licenses and are focused on adding more during the second-half of the year.

Third, we continue to explore M&A. We think there is an enormous opportunity for market consolidation, particularly considering our industry-leading market share. About 95% of all Bitcoin ATMs in the world are in the US and Canada and the international market is virtually untapped. So, we think in the coming years, there's a strong opportunity for us to expand outside of North America as well.

In summary, we had record results and accelerating growth and several milestones we're proud of as we head into the second half of the year.

Question-and-Answer Session

Operator

[Operator instructions] Our first question comes the line of Mike Colonnese from H.C. Wainwright.

Mike Colonnese

Hi, good morning guys and congrats on the listing and your first quarter as a public company. So, Bitcoin depot has established itself as an industry leader. Just wondering, in your view, what do you attribute this to and what gives you confidence that you can defend your market-leading position going forward?

Brandon Mintz

Good morning Mike and thank you. Moving forward, we would try to maintain our market-leading position as much as we possibly can through many things that we've already accomplished and arguably proven ourselves on. One of those would be our ability to secure very large retail relationships with some of the largest retailers in the world. Also, our ability to conduct M&A activities, for example, our purchase of BitAccess in 2021 and integrating all of our kiosks to that software which saves us a few million dollars a year, annually. And just also our ability to scale very quickly. A couple of years ago, we went from just over 1,000 kiosks to nearly 6,000 In the same year in 2021. And with being a public company now we just have a lot more access to capital and we could use our stock now for acquiring talent, but also for acquisitions and partnerships. So, with all of those factors combined and our industry leading market share at nearly 20%, we believe that we will be the leading Bitcoin ATM company moving forward and have the most opportunities in front of us versus any of our competitors.

Mike Colonnese

Great, and secondly, for me, if you can highlight some of the underlying assumptions that went into informing your revenue and adjusted EBITDA guidance for 2023 and the primary revenue drivers and KPIs we should be looking at for you.

Scott Buchanan

Hey Mike. So the biggest things for us is the median transaction size which is important because as we see that rise we're getting more incremental profit out of each customer. And then I would also focus on our volume per kiosk, which you can see in all our filings by taking our total revenue divided by the number of kiosks in operation. You can see how much that continued to grow over the past few quarters. And then lastly, new customer acquisition, which we also have disclosed in this most recent filing as we continue to see that grow as well.

Mike Colonnese

Great, thank you for taking my questions.

Operator

The next question comes from the line of Michael Kupinski from Noble Capital Markets. Your line is live.

Michael Kupinski

Thank you and congratulations on being a public company as well. A couple of questions: Can you comment on the pipeline you've mentioned in your press release about new retail partners? Could you talk a little bit about in terms of your guidance, what are the targets in terms of the number of kiosks in the next quarter and anything that we should look forward to there? And then also, I would assume that there will be some margin impact on that is that embedded in your guide? And then also in terms of your EBITDA guide, are there costs associated with being a public company embedded in that and if you can kind of get thoughts about how significant that expense might be?

Brandon Mintz

That's Michael for the question related to our guidance this year. This is all just organic operating activity for the company and we do not have any additions of kiosks that we're operating in that guidance beyond what we have operating today. I do want to make a note for you that we have roughly 600 plus kiosks in our warehouse right now that have been prepared to be deployed whenever our sales team acquires additional retailer contracts that would allow the deployment of some or all of those kiosks. And to answer the second part of your question, there are public company costs embedded in this guidance as well. I'll let Scott shed a little bit more color on that but a large portion of that is our D&O insurance.

Scott Buchanan

Yeah, and D&O is the biggest piece for sure since we didn't have that prior to being public and now it's multiple millions of dollars. But then there's also just incremental costs with the public company audits with KPMG and the legal costs involved in all the SEC filings and that type of stuff, and that's baked into our forecast that we provide into the market.

Michael Kupinski

Gotcha. And I believe you stated that transaction volumes have historically not been correlated with the price of Bitcoin. Nonetheless, you know, Bitcoin surging roughly 75% year to date, I was wondering if you noticed any trends in the business or customer profiles and if

that had changed or you know, anything that's different given the fact that we've seen Bitcoin surging?

Brandon Mintz

So far, trends have been pretty similar. You have probably noticed our median transaction size has been \$200 now for quite a few months and over multiple quarters, so it still does not appear to have any sort of correlation to Bitcoin Depot's operations.

Michael Kupinski

Has the customer profile changed at all just because of the fact that it's been rising? Have you seen a different profile of the customer demographic for instance?

Brandon Mintz

No, we haven't noticed any difference in customer profile from the price increase of Bitcoin this year.

Michael Kupinski

Okay, that's all I have. Thank you.

Brandon Mintz

Thank you.

Operator

Your next question comes from the line of Kevin Dede from H.C. Wainwright.

Kevin Dede

Hi Brandon, thanks for taking my questions. I'd just like to dial in a little bit on your strategic thinking and expansion within the US. Where are you on the New York Bitlicense and what other money transmitter licenses are you looking at? And what's your proposed timeline?

Brandon Mintz

Thanks Kevin. On the New York Bitlicense, there's no timeline that has been provided to us. We are coming up on three years in terms of being in that process and typically, from what we have seen, it does take a few years to be able to get a license but there's no specific amount of time until we would receive approval if we would receive approval at all. And as far as other money transmitter licenses go, typically the process is for every state that we're operating in, we will do our own due diligence as well as contact the state to see if a money transmitter license is required. And depending on our risk tolerance, based on their answer, we would decide to get a license or determine to continue operating without a license because it may be determined that it's not necessary. I can say that we have over 13 money transmitter licenses today and that number has grown by a handful over the past year. And typically, with our risk tolerance, we're more likely than not to get additional money transmitter licenses. But we do operate in 48 states today outside of New York and Hawaii. In terms of Hawaii, it's just a matter of a sales effort and it does not appear to be license related for us to expand there. Does that answer your question?

Kevin Dede

Fair enough. Yes I appreciate it Brandon, thanks. I think the previous question touched on retail relationships, obviously you got a great one with Circle K. Where else do you think that could go? Where else can you talk to and how much of a strategic emphasis are you putting on it?

Brandon Mintz

Well, it's always an important area of focus for us, even if we're not actively buying additional kiosks. There are kiosks that we do relocate to higher performing locations. And we do have a very strong retailer pipeline at the moment and it's been building up for quite some time. I'm not able to name specific names, but we continue to focus on the convenience store and grocery segment. And if you look at the top, let's say 25 retailers in the grocery and convenience store space, still a majority of them do not have a Bitcoin ATM provider. Most of the smaller convenience store and grocery operators had more tolerance early on to be able to move quickly and allow Bitcoin ATMs in their store. It's just like any industry, you know the larger companies are going to move slower with a new product. And so there's an abundant amount of opportunity there with some of the top retailers in the US and Canada to be able to expand to just because there's not a lot of supply of Bitcoin ATMs in those large retailers.

Kevin Dede

Can we look at a cross section of some of the transfers that Bitcoin Depot has allowed? Do you have a breakdown between what's US-centric and what's US-International?

Brandon Mintz

Just to get some clarification, what type of transfers are you talking about?

Kevin Dede

Well, it's just that you referenced that your customers like Bitcoin access so they can transfer it, right? And I was just wondering if you had a view to how its transferred and where it goes.

Brandon Mintz

So, in terms of how Bitcoin Depot functions, those users actually are just purchasing Bitcoin from us. I think what you're referencing is in our survey data, a large portion of those users, it's somewhere around 30%, say that they're using Bitcoin for money transfers either domestically or internationally. And if that's what you're asking, we don't have specific data on the breakdown. We just ask the question on what are you using your Bitcoin for after you purchase it from us?

Kevin Dede

Understood. Okay, yeah that's exactly where I was going with that Brandon. Thanks for the color and I appreciate you talking questions.

Operator

Again, if you'd like to ask a question, press star, then the number one on your telephone keypad. Your next question comes from the line of Brian Dobson from Chardan Capital Markets, your line is live. Brian, your line is live. Mr. Dobson has withdrawn his question.

There are no further questions at this time. I'd like to now turn the call back over to Brandon Mintz.

Brandon Mintz

Thank you everyone for joining the call today. We really appreciate your time and interest in the company and your questions. I want to also note that we did have some technical difficulties and there was a section that our COO Scott Buchanan was going to read and due to the technical difficulties, he was not able to. So, if you would like to read his section, please just see the official transcript in print. Thank you, everyone.

Operator

That concludes today's conference, you may now disconnect.

###