

HELIX TCS EARNINGS CONFERENCE CALL
Q1 2019

Operator: Good day, everyone and welcome to today's Helix TCS Earnings Call Q1 2019. At this time all participants are in a listen-only mode. Please note, this call may be recorded.

I will be standing by should you need any assistance. It is now my pleasure to turn today's conference over to Zachary Vanegas, CEO. Please go ahead.

Zachary Vanegas: Thank you. Good morning, everyone, and welcome to our Q1 2019 Earnings Call. Thank you for taking the time to be with us this morning. We don't have to anticipate our call being terribly long, but we do think it will be an exciting call.

I'm here with my partner and our CFO, Scott Ogur. I just want to remind everyone that there won't be any live Q&A, but we encourage you to send questions into IR at HelixTCS dot com. We'll address any questions that you have at the end of the call.

With that, I will turn it over briefly to Scott for the disclaimer and the period of awkward silence that follows that.

Scott Ogur: Thanks Zach. This presentation may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and 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, drafts, 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 results to differ materially from those projected in the forward-looking statements, including the risk.

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 identified in the 10-K for the fiscal year ended December 31, 2018, and other filings made by the Company with the Securities and Exchange Commission.

I will now turn it back over to Zach.

Zachary Vanegas: Alright, thanks. Scott. What I would like to start with is the qualitative assessment of our performance and some, I think, material events that

HELIX TCS EARNINGS CONFERENCE CALL
Q1 2019

have happened over the quarter. Then, I'll turn it back over to Scott to get into the really exciting stuff about our numbers.

If we review very briefly what we talked about on our last call and in our press releases since then. We had a couple of important objectives for this quarter on each of the different business lines.

We'll talk about market development in terms of the wholesale market first. Which is to say, we had announced that we wanted to continue to develop that market and push ahead as the only truly compliant wholesale marketplace within the industry.

Which is to say, once again, it is our view; a marketplace is only really compliant when it is able to trace, not only seed-to-sale, but full settlement, and delivery of the product, and payment. Right now, that doesn't exist in the industry except through our platform.

That was supported by our announced plan to acquire Amercanex. That continues to be the case. Obviously, we haven't closed that yet. That is not a done deal. I want to be clear about that.

But, at the same time, we have taken the large step of announcing and signing the deal. We will continue to do that. We do expect to close without any problems. We'll make an announcement when the time is appropriate.

Then that will, in our view, make us the single and only fully compliant wholesale market maker or marketplace for the cannabis industry. That's one critical objective.

The other one is to continue migrating as many clients as possible from our security guarding space into the digital guarding space. Because that has higher margin and is a more efficient business as we grow.

Because, again, states having different types of regulatory regimes around security; we know that observation and digital security is going to be present in every single space regardless of whether or not armed guarding is present or required in every single state.

Then finally, we had an objective to continue to push and develop the Seed-to-Sale Traceability business through BioTrack, through that business vertical. Some highlights for that in the quarter were the extension of the state of Delaware.

HELIX TCS EARNINGS CONFERENCE CALL
Q1 2019

Meaning Delaware chose to extend our contract with them without going to another RFP or a request for a proposal because they were happy with our performance. We launched onto Dakota. Again, we like to emphasize on time, as we take more and more critical aspect of competitive leadership within the Seed-to-Sale Tracking business.

It's going to be the fact that we believe that we're the only firm that has always rolled out on time and on budget in that space. Again, as people start to evaluate past performance and the industry matures, that will become critical.

We also deployed the Illinois Opioid Alternative program. Although, it has fallen a bit out of the media's eyes, we all know is a critical crisis in the United States, around people's – around opioid abuse.

We think, again, that will be a significant driver as the years go by in terms of states looking to develop those programs and needing a Seed-to-Sale tracking solution to support that.

Overall, we achieved all the objectives that we set out for the quarter. Although, I hate to talk about quarters, really because our view is a bit longer than that, we do measure performance on a quarterly basis.

Again, I don't want to trade the market to look too short sided at our efforts and opportunities. But we've been very pleased with the progress so far. The quarter, which you will see when stats are turned out as well as anyone could have hoped.

What I will say also in terms of one final piece of color. The market did have a sort of choppy year. I mean, we clearly noticed it. Different state rollouts didn't go as people planned. I think we were pretty prudent about the amount of resources we expended towards.

The announced rollouts of different states. We need to make sure that they really rolled out as everyone was expecting. Or, the way they were announced before we got caught up in pouring huge resources in it, only to have the actual business not really grow.

Because again, I just want to emphasize to all investors. Our business, while volume is important for the overall volume of cannabis transaction; and growth in the nation does drive some of our growth. It's very important to note that it's really the number of participants that underpins a lot of our growth.

HELIX TCS EARNINGS CONFERENCE CALL
Q1 2019

The number of participants, again California had a, sort of, stop and go rollout this year. But that could have very easily gone against us. Because I'm not sure where California is in terms of the total number of licensees.

But, permanent licensees for most of the year did not grow significantly. Because there was a lot of internal licensing. That's an important new watch for us. Our geographic expansion went as planned.

We're very excited about what the international expansion is going to look like next year. Then, the other highlight was obviously the appointment of Vicente Fox to our board, which gives us a very powerful ally and advisor in our expansion into Latin America.

We do see a lot of traction or more traction in the international markets than we probably would have expected. Because we think that's gone beyond just, sort of, positioning by other countries to a real political movement within those countries in order to produce in their country, especially in South America, to fully participate in the cannabis market.

That said, I'll now turn it over to Scott to talk about the quantitative aspects of our last quarter. Scott?

Scott Ogur:

Thank you, Zach. In the first quarter of 2019, we generated revenues of \$3.4 million as compared with 1.1 million in the prior year for an increase of 199%. Gross profit in the quarter was \$1.4 million versus 338,000 in 2018's first quarter.

Gross margin was 43% as compared with 30% in the prior year. We reported a loss from operations of 4.2 million as compared with \$3 million in the prior year's first quarter. Cash flows from operations were negative 1.18 million in Q1 2019, versus negative 1.01 million in Q1 2018.

On the segment basis, the two primary business segments are software and security guarding, and monitoring. In the first quarter of 2019, software, which is the BioTrack business generated revenues of \$2.14 million as compared with 1.95 million in the fourth quarter of 2018, for a 10% sequential growth.

We did not own this business in the first quarter of 2018. But, as a private company, BioTrack generated 1.77 million of revenue in Q1 2018. Software gross profit was \$1.31 million in Q1 2019, up 11% from the 1.18 million gross profit in Q4 2018, and up 22% from the \$1.08 million BioTrack generated in the first quarter of 2018 as a private company.

HELIX TCS EARNINGS CONFERENCE CALL
Q1 2019

The security guarding and monitoring business had revenues of \$1.20 million in the first quarter of 2019, up 10% from the 1.09 million in Q1 2018. Gross margin in Q1 for this business unit was 22%, down from 28% the prior year, driven by a little bit more overtime that we had to pay.

Sequentially, Q1 2019 reflected a seasonal decline from Q4 2018, as a number of our clients often focus on reducing expenses in the first quarter of the year – as much of their cash is tied up in working capital in advance of the unofficial cannabis industry holiday on 4/20.

On April 1st, we closed the acquisition of a security company in California, which we plan to use as our platform for growth in that state. We believe the Colorado security market is reaching a point of saturation and are excited to bring our industry leading cannabis security offering to the state of California.

With that, we will now focus on the Q&A portion of the program. Again, if you have questions, please email IR at HelixTCS dot com. We'll give it a few seconds here. We'll start looking, read the questions as they come in, and then answer them.

Zachary Vanegas: Thank you, Scott. We'll start with some of the Q&A that we have in already. One of the questions, so this is actually the second question. But I'll do it first. What are our priorities for our acquisition strategy?

That's a great question. As everyone knows, we've been acquisitive over the last couple of years. I don't think the priorities themselves have changed. I think the metric potentially has changed it a little bit.

Because in the beginning when we first started to acquire, we were very keen to make sure that we had the product and service line verticals filled out. That was a priority for acquisition as opposed to just accretive revenue or earnings.

I think now, the priorities don't necessarily change. But I think the metrics in line with what we're trying to do now changed it a little bit. Because I think our product vertical and our service verticals are largely filled out.

There might be a little bit of, sort of, corporate entrepreneurship as we launched new business lines; and as we plan to do over the next couple of years. But I think what we're looking at in terms of the technical details or the financial detail are going to potentially change. In that, we want to make sure they're strongly accretive on the revenue side.

HELIX TCS EARNINGS CONFERENCE CALL
Q1 2019

I think we're willing to take a more entrepreneurial view before that Scott, and I could really push newly acquired businesses to grow revenue at right size with them. Just sort of fix their corporate internal structure and operations, and make them, sort of, go faster for lack of a better word.

But now, I think we're going to focus a little bit more on directly accretive results immediately upon acquisition as opposed to, sort of, a more developmental acquisition.

Scott Ogur:

Actually, if I could just add to that? There is also sort of an element of the classic corporate finance, buy versus build question, that we ask ourselves now at this point, as highlighted by the California security company acquisition, we closed on April 1st.

That was a market we knew we wanted to get into to be able to offer security services. The question that we've asked ourselves. It was, "Okay, is it faster and more efficient, and better to start a company ourselves, and go through the licensing process, and then go that way; or, to buy a small company?"

As we looked at the California licensing process, especially, it was clear that was going to be a long and drawn out situation. By making a small acquisition and using that as a platform to grow, that was the situation that made more sense.

Zachary Vanegas:

Thanks Scott. The next question, we'll take. How much growth do you think is possible from wholesale? The wholesale market, we think is obviously a tremendous amount of growth.

We think it's a business line that will be as large or larger than any other business line we're looking at. The key question is, "How large do we think we will get over what period of time?"

That's the sort of stick, and the rub, as it were. Because international market development is one thing, even intranational market development within any given nation is of interest to us. Because we have the ability and the interest to work with other governments to develop their national markets, even if they're not exporting.

Those are all potential areas of growth for us. It's really how fast the political agenda is moving; and again, very closely mirroring the United States. Then, with regard to that, do we think it's the multi-billion-dollar business eventually? Yes, we do.

HELIX TCS EARNINGS CONFERENCE CALL
Q1 2019

We have been encouraged by the rate of political movement in other countries as evidenced by the fact that we're pushing hard into Latin America. Because we think that this real momentum that's there; and exactly when that comes to a tipping point.

They want to open international and national wholesale markets. I want to hazard a guess on, but I do think it will be sooner than probably most of the cannabis industry within the United States is anticipated.

Zachary Vanegas: Alright. Then, another question that just came in. What is the status of the balance sheet current assets and current liabilities? We actually just posted our 10-Q for the first quarter yesterday.

Certainly, everyone is welcome to go look at that out there on the EDGAR website. But what I would focus you on within current assets would be cash and accounts receivable, which are about \$3.3 million combined at March 31st.

Then, on the liability side, I would focus on accounts payable and accrued liabilities. There are certainly some convertible notes out there, which GAAP requires us to mark-to-market. Although it says \$5 million, in reality, it's actually \$1.95 million.

Again, these are convertible notes that can be repaid next March. Or, it can be converted into equity. The accounts payable and accrued liabilities were 2.1 million. The cash and accounts receivable net worth, 3.3 million.

I think we're in a pretty strong position from that perspective. Then again, if you look back over the last three years, what I think you'll see. While maybe other folks in this industry have taken the fundraising business model, we have taken more of an execute on our business plan model.

Just ensure we have sufficient capital available to do so, but without overly diluting shareholders just for the sake of having more money in the bank than we actually need.

Zachary Vanegas: Thanks, Scott. That last point is a great one. I think it's important, again to note, as the investors and everyone looks at the company. I think, it's equally important for employees that are looking at the financials as well to understand.

We really focus on trying to enhance shareholder value and not take any dilutive actions. Or, I think, everything we've done so far has been accretive as opposed to dilutive.

HELIX TCS EARNINGS CONFERENCE CALL
Q1 2019

As well, we have good access to capital, and I think, if anyone takes the time to look at other companies that we would say are competitors across any of the verticals or as an overall platform. I really believe there is a stark difference between our competitors and ourselves in terms of how much money they have raised compared to us to generate as much, or interact, not even as much – in most cases, much less revenue than we have.

That's important as we develop as a firm. How efficiently does mass put capital, which is intrinsically dilutive, to work? I think, that's quite important.

Then, there is something to be said for not unnecessarily diluting existing shareholders. It's just to make sure we have a massive amount of money in the bank; and then, run around saying that's some sort of competitive advantage.

Because a competitive advantage by definition is something that's not easily imitable by a competitor. That's why it's an advantage.

Right now, in the cannabis market, just running around and raising money provides no direct advantage. Because right now, cannabis is a hot sector. A lot of people are interested, presumably.

In point of fact, many people with business plans, as one would argue, aren't even that viable are raising money. There is no particular advantage to having that.

That said, that's the last comment I'll make. Surprisingly, it's the last question that has come in. We'll thank everyone for their time and attention.

We look forward to the next call. Have a great day.