
CORPORATE PARTICIPANTS

Matt White

Chief Financial Officer & Corporate Secretary, CoreCard Corp.

J. Leland Strange

Chairman & Chief Executive Officer, CoreCard Corp.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good morning and welcome to CoreCard Second Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Matt White, Chief Financial Officer. Please go ahead.

Matt White

Chief Financial Officer & Corporate Secretary, CoreCard Corp.

Thank you and good morning, everyone. With me on the call today is Leland Strange, Chairman and CEO CoreCard Corporation. He will add some additional comments and answer questions at the conclusion of my prepared remarks.

Before I start, I'd like to remind everyone that during the call we'll be making certain forward-looking statements to help you understand CoreCard Corporation and its business environment. These statements involve a number of risk factors, uncertainties and other factors that could cause actual results to differ materially from our expectations. Factors that may affect future operations are included in our filings with the SEC, including our 2023 Form 10-K and subsequent filings.

We'll also discuss certain non-GAAP financial measures, including adjusted diluted EPS and adjusted EBITDA, which is adjusted for certain items that affect the comparability of our underlying operational performance. These non-GAAP measures are detailed in reconciliation tables included with our earnings release.

As we noted in our press release, our second quarter results were in line with our expectations. Total revenue for the second quarter of 2024 was \$13.8 million, a 12% decrease year-over-year driven by lower license revenue and lower professional services revenue, primarily from our largest customer, Goldman Sachs. The components of our revenue for the second quarter consisted of professional services revenue of \$7 million, a metric we guide to and which came in ahead of our previously guided range. Processing and maintenance revenue of \$5.7 million and third party revenue of \$1.1 million.

As expected, we did not have any license revenue for the quarter. As we continue to grow revenues outside of our largest customer, Goldman represented 63% of our revenues for the second quarter of 2024, compared to 70% for the second quarter of 2023. Revenue growth, excluding our largest customer, was 7% in the second quarter on a year-over-year basis. Revenue growth, excluding our largest customer in addition to the impact from ParkMobile and the legacy Kabbage business as we've detailed in prior quarters, was 34% in the second quarter

on a year-over-year basis and is expected to be 15% to 20% for the full year, which is above our previously guided range of 10% to 15%.

We continue to onboard new customers both directly and through various partnerships we have with program managers. As in previous quarters, we currently have multiple implementations of progress with new customers that we expect to go live in the coming months. Processing and maintenance revenues were mostly flat in the second quarter of 2024, compared to the second quarter of 2023, primarily due to the revenue decline from the legacy Kabbage business that I mentioned previously.

Turning to some additional highlights on our income statement for the second quarter of 2024, income from operations was \$1.1 million for the second quarter of 2024 compared to income from operations of \$2.7 million for the same time last year. Our operating margin for the second quarter of 2024 was 8% compared to an operating margin of 17% for the same time last year. The decrease is primarily driven by lower license revenue, continued investments in our new platform and lower professional services revenue.

The income statement impact of our new platform build was \$0.7 million in the second quarter of 2024, compared to \$0.4 million for the prior year period. We reduced our head count slightly in India and expect related cost savings starting in the third quarter of 2024. We will continue to look for cost savings, as needed, to remain quite profitable given the lower revenues we're currently receiving from our largest customer.

Our second quarter 2024 tax rate was 24.4% compared to 24.8% in the second quarter of 2023. Earnings per diluted share for the quarter was \$0.11, compared to \$0.22 for Q2 2023. Adjusted diluted EPS for the quarter, excluding stock compensation expense was \$0.15 compared to \$0.23 for Q2 2023. Adjusted EBITDA was \$2.5 million compared to \$4.8 million for the second quarter of 2023. We have over \$22 million of cash on our balance sheet as of June 30, 2024, and we expect to continue generating operating cash flow in 2024. We plan to use this excess cash and cash generated from operations to continue our investments in our new platform and to continue buying back shares. We repurchased 134,650 shares in the first quarter of 2024 for \$1.6 million and 147,040 shares in the second quarter for \$2.1 million.

For the full year 2024, we continue to expect services revenue to be approximately flat. We expect license revenue to be approximately \$1.4 million in either the fourth quarter of 2024 or the first quarter of 2025. As mentioned earlier, we expect growth from customers, excluding our largest customer in addition to the impact of ParkMobile and the legacy Kabbage business, and the \$0.5 million of accelerated revenue recognized in Q1 2024 to be between 15% to 20% for the full year, which is above our previously guided range of 10% to 15%.

Within services, we continue to expect strong growth in processing and maintenance as our customers continue to grow and as we continue to onboard new customers. We anticipate professional services revenue in the third quarter of 2024 to be likely in the range of \$6.2 million to \$6.5 million.

And with that, I'll turn it over to Leland.

J. Leland Strange

Chairman & Chief Executive Officer, CoreCard Corp.

Thanks, Matt. You didn't leave me much to say. I think you're pretty comprehensive in covering kind of the business and even where we're headed now. I guess, I have often say, just look at the numbers. Don't pay attention to what anybody says. I think the numbers are about what we expected. We're happy with them. They're probably a little higher than what we expected from the standpoint of professional services. And I wouldn't expect

that to stay up, but I've been surprised several times in the past few years on them, and they may still stay up. Generally, our growth is good. As far as the other side of the business with our largest customer, it's steady. Could it be a little faster or bigger? Would I like that? Yeah, but you can't handle a lot -- you couldn't handle it if it was growing a whole lot faster. So, we're pretty happy with the continued growth.

The new, what we call CoreFI or CoreFinity, platform we're building is coming along fine also. I'll just remind everybody, that's not expected to be finished until the end of the fourth quarter, we'll say, of 2025, but we're making good progress, and we're using parts of what we've done already in our current environment. So, that's the investment. It's the investment we think it's really good for the company, for the shareholders over the long-term.

Other than that, there's not a lot to say. We've added -- I could name a lot of cards and things, but we don't tend to do that. I will mention that one of our customers has got Qatar Airlines. So, if you fly to Qatar, or to India through Qatar, and want to earn bonus points, you'll end up with the Qatar Airlines card, and that's a being processed by CoreCard. We're still doing well in the Middle East. So, generally business is just steady; steadily growing as far as the current business; steadily growing as far as adding some new ones.

And, we are working on several other good size potential business that would be -- that would come online in late 2025. That is the nature of what we do. If you have to work on it -- a year in advance, typically we have two or three that we're -- we believe at least one of those will go live, maybe all of them in the third, fourth quarter of next year, first quarter of 2026. So generally, I would just have to say we're pleased with the numbers that we reported this quarter. We're pleased with the way business is going, and we're just going to continue to stay on the path we're on now.

Operator you can open it for question, we're happy to take your questions either for Matt or I.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. [Operator Instructions] Our first question is from the line of Hal Goetsch with B. Riley Securities. Please go ahead.

Hey, Hal, we can't hear you.

Operator: Hal, are you there?

Q

Yeah. Hi, there. Yeah, in the -- thank you. I'm sorry. I was on mute. The tone of business this time a year ago, we were in the midst of a little bit of a banking crisis for small banks and large banks as well. A year has gone by and you mentioned the business, the tone of business is steady. And it this, is the tone of like RFPs or inquiries that are still steady or is that lifting from maybe a year ago or six months ago? What is the tone of like -- yeah.

A

Yeah. I would say there's been a change in the sense that less fintech activity, a little bit more from the smaller banks. It's still not big, but it has improved some from what we're getting from the smaller banks. Fintech is slowed some. Of course, we still get some. But I'm just trying to give you from the sense of what I see in the landscape a little better from the smaller banks and a little less from the fintech side of the business.

Q

Okay. And a question for Matt. Was there any buyback activity in the quarter? I know you had been buying back stock?

A

Yeah, we bought back around 147,000 shares at \$2.1 million.

Q

Okay. Okay. And final question is, you mentioned like two to three large, or at least one or all could hit maybe in the back half of 2025. Like, could you give us like a kind of a range, or a feel for what large is for you guys, like in terms of... I mean,...

A

Sure, sure, yeah that's a good question Hal. I'm going to place your large in the two -- I'm going to give you a pretty wide range, \$2 million to \$8 million a year type revenue. So, over \$2 million is a small large, but it's a medium, and \$8 million is a big large for us. And I'm talking about annual revenue. So, \$2 million, \$3 million, \$4 million, \$5 million, \$6, \$7, or \$8 million type annual revenue maybe in combination -- well, no reason to do combination either you have it, or you don't have it. But, let me just add to that though, what's important in this kind of business is that it tends to snowball a little bit. If you add a couple of more decent sized financial institutions, that tends to lower the risk for the next guy to make the decision. So that helps you. Now, we believe it's very low risk. We've got a lot of experience with conversions. We've never had a problem. We do not think there'll be a problem, but it doesn't matter what we believe. What matters is what a...

Q

Yeah. Absolutely.

A

...a board of directors or a risk officer believes. And, of course, all we can do to show them there's not much risk, but the risk is taken away based on historical performance. So that's what -- that's kind of the way we're growing the business.

Q

All right. Thank you. Appreciate that perspective. Thank you.

A

Any other questions in queue?

Operator: Thank you. No, sir, there are no questions in the queue. Ladies and gentlemen...

A

Okay. So, we will thank everyone -- yeah, we thank everyone for taking the time to listen to our call. And as always, if you have any individual questions, Matt and I are always available to talk. So, thank you very much. Bye.

Operator: Thank you. The conference of CoreCard has now concluded. Thank you for your participation. You may now disconnect your lines.
