CoreCard Corp. (CCRD)

Q4 2023 Earnings Call Transcript

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CORPORATE PARTICIPANTS

J. Leland Strange
Chairman & Chief Executive Officer, CoreCard Corp.

Matt White
Chief Financial Officer & Corporate Secretary, CoreCard Corp.

OTHER PARTICIPANTS

Hal Goetsch
Analyst, B. Riley Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the CoreCard Q4 2023 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, CFO. Thank you. 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 of 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, uncertainty 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 2022 Form 10-K and subsequent filings. We'll also discuss certain non-GAAP financial measures, including adjusted diluted EPS, 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 fourth quarter results were in line with our expectations and with continued year-over-year growth in processing and maintenance revenue. Total revenue for the fourth quarter was $12.2 million, a 23% decrease year-over-year. Services revenue defined as total revenue, excluding license revenue, decreased 13% in the quarter on a year-over-year basis with full year growth of 1%. The components of our revenue for the fourth quarter consisted of professional services revenue of $6.1 million, processing and maintenance revenue of $5.5 million, and third-party revenue of $0.5 million. Processing and maintenance revenues grew 8% in the fourth quarter on a year-over-year with full year growth of 18%. The decline in professional services revenue was driven by lower demand for development personnel from Goldman Sachs, our largest customer. As a reminder, we converted the managed services revenue we received from Goldman, which is included in professional services to a fixed monthly fee of $1 million, which is contracted through June 30, 2025. Maintenance revenue from Goldman was approximately $2 million in the fourth quarter of 2023, and that is contracted through June 30, 2026.

Revenue growth excluding our largest customer and excluding impact from ParkMobile, which we talked about in the last quarter and the legacy Kabbage business, which is currently in runoff, was 12% in the fourth quarter on a year-over-year basis and 13% for the full year. We continue to onboard new customers both directly and through various partnerships we have with program managers such as Deserve, Vervent and Cardless. We currently have multiple implementations in progress with new customers that we expect to go live in the coming months. However, these new customers typically build their account base prudently, remember, they're issuing credit, paying mostly our minimum fees initially of around $10,000 to $15,000 per month in the initial 12 months to 18 months of their program. We expect our new customers to become more significant over time as they grow their own business at a measured pace.

Now turning to some additional highlights for the fourth quarter and full year for 2023. Income from operations was $0.4 million for the fourth quarter of 2023, compared to income from operations of $3 million for the fourth quarter of 2022. Our operating margin for the fourth quarter of 2023 was 3% compared to an operating margin of 19% for the same period last year. The year-over-year decline in our operating margin was primarily driven by continued investments in our new platform, hiring in India and lower license and professional services revenue year-over-year. The income statement impact of our new platform build was $0.6 million in the fourth quarter of 2023 and $1.8 million for the full year. Those amounts are included in our development expenses on our income statement.

Fiscal 2023 and 2022 tax rate was 24.5% and 27.1% respectively. We expect our ongoing tax rate to be between 25% and 27%. Earnings per diluted share for the quarter was $0.06 compared to $0.12 for the fourth quarter of 2022. Full year 2023 diluted EPS was $0.40 compared to $1.61 for the full year 2022. Adjusted diluted EPS for the quarter, excluding the fourth quarter 2022 impact of a write down of one of our equity method investments, was $0.06 compared to $0.24 for Q4 2022. Full year 2023 adjusted diluted EPS was $0.52 compared to a $1.74 for the full year 2022.

We generated significant operating cash flows in 2023 of $16.8 million. We used $3.7 million on share repurchases in 2023, including $2.1 million of share repurchases in the fourth quarter of 2023. We have excess cash on our balance sheet as of December 31, 2023, 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 investing in our new platform and to continue buying back shares, especially at current price levels.

For 2024, we expect services revenue to be approximately flat and license revenue of approximately $1.4 million coming in the second half. We expect growth from customers excluding our largest customer and excluding the impact of ParkMobile and legacy Kabbage, which is all services revenue to be approximately 11%. Within services, we expect continued growth in processing and maintenance as our customers continue to grow and as we add new customers. We anticipate professional services revenue in the first quarter of 2024 in the range of $6 million to $6.2 million.

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

J. Leland Strange

Chairman & Chief Executive Officer, CoreCard Corp

Yeah. Thanks, Matt. Let me just say, start planning your questions now because my comments are going to be short. First, let me comment on the lack of license revenue for the quarter. As most of you know, license revenue comes in buckets of about a million new cards that we had done. And I don't think we expected in the first half of the year. There have been pundits trying to extrapolate the success or failure or the growth or lack of growth or maybe just translate that to measure the success of the card program of our largest customer. That's bad logic and a mistake. The largest individual brand processed on our software continues to grow their program, and it continues to be a phenomenal success. How can that be if there are no new licenses? Well, our licensee processes more than one program with their license from CoreCard, and the CoreCard license revenue is not split by program but it's for the total number of active cards that they process.

For example, if one of the programs should clean their books by canceling old unused cards that would be one way that would slow new license revenue and could possibly mislead one as the growth of the other program. Also the license revenue is on active cards. Depending on definition, some cards could become inactive. I should say here, however, that the largest program of the system probably has the most average number of transactions of any large program that I have ever seen. The cardholders love the card. They often use it for breakfast, lunch and dinner on the same day plus a lot of other daily transactions. So it's a very, very good program. And even though we may not have new license revenue in the first half, the program itself is growing at a good rate.

Second, let me comment on Matt's statement that the projected adjusted growth for services in 2024 is about 11%. Now, I'm not happy with that slow growth rate, but he's probably right based on the new business we're currently working with. I'm hopeful we could squeeze some other business in this year or that some of them will grow faster than projected, but it may end up being in that range.

Third, as most of you know, we've historically not spent much on business development and had been in the good position of business finding us. Well, it was a fine in the past, and we recognized that we are prioritizing providing excellent service for our largest partner to enable their growth plans. Now that their growth plans have changed, we're also changing. We've added sales, may add more, and we'll beef up our marketing program. It's still true that the larger potential clients and the consultants they work with are keenly aware of which issuing processors are capable of handling their potential business. But we still need to make certain that we have a voice at the table in their discussions, so we'll be adding to that.

I think for 2024, we'll add to business development expenses. We'll continue with building next generation software while at the same time we'll be lowering the head count in the areas that are not growing as we had anticipated. By the way, our new platform is now called CoreFinity that's the inside name. But we've recently introduced the first output from that effort into our own core processing environment. It's a service that we offer to our customers. Some of the output from the new platform development will go into our current processing environment and some of it will not be available until second half of next year when we finish it.

Let me just, I guess, just summarize that we're focused on the continued growth of processing and maintenance revenues outside of Goldman. And as I just mentioned, we're doing that partly with adding some expense in those areas. We do have increased revenue visibility. The Goldman revenues are now longer-term contracted, and they are recurring in nature. We do have reduced customer concentration, and that's a bump in the road today towards a healthier customer mix going forward. As we continue to grow non-Goldman revenue, that's the measure of the success for the company. I think I mentioned we have a new platform coming on and then of course our cash flow is positive. We have a very strong balance sheet with no debt. If you look at the bigger picture, card issuance globally is strong and continues to grow despite economic conditions. CoreCard gets paid on a number of cards issued, so even in an economic downturn we're fine.

Our differentiation is simply, CoreCard competes on program innovation, customization, flexibility, speed, premium service levels, while the legacy service providers, they do have scale advantages, although at some point I'll talk about that because I think they're not what they appear to be. The aspects that CoreCard offer are highly distinct from the competition and have driven customer wins in the past, and we think will continue to do so.

With that, I'll open it for questions if we have any.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Today's first question is coming from Hal Goetsch of B. Riley Securities. Please go ahead.

Hal Goetsch
Analyst, B. Riley Securities, Inc.

Q

Good morning, guys. Hey, Matt, could you just refresh us? I know you mentioned it, but the contract term length for Goldman. You gave two different years. Can you just go over that again? And Leland for you, could you discuss maybe what the banking crisis might have had an impact on just programs and the pace of movement of programs in 2023 and how that's shaping up right now? Thanks.

Matt White
Chief Financial Officer & Corporate Secretary, CoreCard Corp.

A

Sure. Yeah. So, there's two contracts that we renewed back in July, effective July 1, 2023. One was for managed services and that's running the software. And that goes through professional services. That's through June 30, 2025 at $1 million – a $1 million a month run rate subject to CPI increases after 12 months. And the other was the maintenance contract that again was extended on July 1, 2023 through June 30, 2026.

Hal Goetsch
Analyst, B. Riley Securities, Inc.

Q

Okay.

J. Leland Strange
Chairman & Chief Executive Officer, CoreCard Corp.

A

To answer second question on the banking crisis. I think we're finally getting back to somewhat normal. There was a period of uncertainty where nobody wanted to do anything. I'm sensing now that that's slowly going away. I think there's still a regulatory overhang in the sense that the regulators are looking hard at Fintechs. They're looking hard at any card program that deviates from the standard. But the good side from our view and for our future is, I believe, things are normalizing. And unless something else happens that we can't foresee at this point, I will expect that by the middle to end of the year, everything to be back like it was three years to four years ago, and folks will be looking for the best way to process their program. They'll be looking for growth again.

Hal Goetsch
Analyst, B. Riley Securities, Inc.

Q

Okay. Terrific. And one follow-up from me on growth spending and then share buybacks. You have a really rich, healthy balance sheet for a small company. You mentioned that you bought back stock in Q4. You mentioned investing for growth but can you kind of like give us your thoughts on how that would break out in 2024. Like how much you might allocate to a buyback? Is it opportunistic? And then, how much maybe is capital spending for the year?

J. Leland Strange A

Chairman & Chief Executive Officer, CoreCard Corp.

Well, obviously, how much we would allocate that would depend partly on what happens with the share price. But we're likely to be aggressive. We're likely to be aggressive with these share prices given what we see in the future, given the folks we are talking to, and given how we look at our outlook. So, that's probably the best guidance I could give. Don't you think Matt?

Matt White A

Chief Financial Officer & Corporate Secretary, CoreCard Corp.

Yeah. We've got plenty of room left on our current authorization, over $14 million remaining. So, we won't be able to use all that in one year. So, there's plenty of runway there. And then, on the CapEx, it's probably between $5 million to $6 million capital spending. Some of that goes towards the new platform and some of that is continued investment in equipment for our current platform.

J. Leland Strange A

Chairman & Chief Executive Officer, CoreCard Corp.

We're in really good shape with both cash flow even with the spending for the new platform and increased spending for business development. And we frankly discussed, at the board, we discussed of even making a buyback or our authorization higher, and we decided there was no need to right now because we're limited how much we could buy on any one day given the rules, but we'll be – we will be buying back.

Hal Goetsch Q

Analyst, B. Riley Securities, Inc.

Okay, terrific. I'll get back in the queue. Thanks.

Matt White A

Chief Financial Officer & Corporate Secretary, CoreCard Corp.

Thanks, Hal.

Operator: Thank you. That brings us to the end of today's question-and-answer session. We would like to thank everyone for their participation and interest in CoreCard. This does conclude today's event. You may disconnect your lines at this time or log off the webcast and enjoy the rest of your day.