

# CoreCard Corporation NYSE:CCRD

## FQ3 2023 Earnings Call Transcripts

**Wednesday, November 01, 2023 11:00 AM ET**

## Call Participants

### EXECUTIVES

**James Leland Strange**  
*Chairman, CEO & President*

**Matthew A. White**  
*CFO & Corporate Secretary*

### ANALYSTS

**Avram Fisher**

**Harold Lee Goetsch**  
*B. Riley Securities, Inc., Research  
Division*

# Presentation

## Operator

Greetings. Welcome to CoreCard's Third Quarter 2023 Earnings Conference Call. [Operator Instructions] Please note that this conference is being recorded.

At this time, I'll turn the conference over to Matt White, CFO. Mr. White, you may now begin.

## Matthew A. White

*CFO & Corporate Secretary*

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 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 filings with the SEC, including our 2022 Form 10-K and subsequent filings.

As we noted in our press release, our third quarter results were in line with our expectations with continued sequential and year-over-year growth in processing and maintenance revenue. Total revenue for the third quarter of 2023 was \$13.4 million, a 7% decrease compared to the third quarter of 2022. The components of our revenue for the third quarter consisted of professional services revenue of \$6.4 million, processing and maintenance revenue of \$5.8 million, a year-over-year increase of 10%, and third-party revenue of \$1.2 million. The 10% year-over-year growth in processing and maintenance revenue was driven primarily from recently added customers who are now live and continued growth from existing customers. That growth was offset by a decline in professional services revenue due to lower demand for development personnel from Goldman. We did not recognize any license revenue in the third quarter of 2023. Our best estimate on the timing of the next license tier is sometime in the first half of 2024. We continue to see nice growth from all customers, excluding Goldman, which was 18% in the third quarter on a year-over-year basis. This growth has come through continued onboarding of new customers, both directly and through various partnerships we have with program managers. As in previous quarters, we currently have multiple implementations and progress with new customers that we expect to go live in the coming months.

Turning to some additional highlights for the third quarter of 2023, income from operations was \$0.4 million for the third quarter of 2023 compared to income from operations of \$1.7 million for the same time last year. Our operating margin for the third quarter of 2023 was 3% compared to an operating margin of 12% for the same time last year. The decrease is primarily driven by lower revenue and higher costs from hiring in India and in our Colombia office that we opened in October 2021 in addition to continued infrastructure investments in our processing environment.

As discussed previously, we are working on the development of a new platform. A portion of the costs associated with this project are capitalized. Anything not capitalizable under the accounting rules is expensed to development costs. We have incurred pretax development expenses of \$1.2 million through the first 9 months of 2023 and \$0.5 million in the third quarter of 2023 related to this project. Our third quarter 2023 tax rate was 24.5% compared to 24.6% in the third quarter of 2022. Earnings per diluted share for the quarter was a loss of \$0.03 compared to income of \$0.16 for the third quarter of 2022. And adjusted earnings per diluted share was \$0.09 for the third quarter of 2023 compared to \$0.16 for the third quarter of 2022 and that adjustment excludes the impact of an impairment on a cost method investment that we recorded in the third quarter of 2023.

Our operating cash flow for the year through September 30, 2023, was \$18.3 million compared to \$10.9 million for the 2022 period. We plan to use this cash for future growth, potential acquisitions and share

repurchases. As noted in our press release this morning for the full year 2023, we expect growth in services revenue to be approximately flat in 2023 compared to 2022. The impacts to revenue in the fourth quarter are primarily driven by lower expected professional services revenue from Goldman and by the loss of a customer in the parking app space. This customer ParkMobile was acquired by a larger competitor recently and has now been fully integrated into their parent company. We were the program manager for this customer and therefore, recorded the interchange revenue generated from their program as gross revenue and any related costs as cost of services. We generated approximately \$40,000 to \$45,000 of processing revenue and approximately \$0.5 million of third-party revenues and costs on a quarterly basis from this customer. We do not expect any related revenues or costs from this customer in the fourth quarter of 2023 or future periods.

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 fourth quarter of 2023 to be in the range of \$6 million to \$6.4 million. The lower expected professional services revenue reflects the change to our Goldman contract, converting a portion of the revenue to a fixed monthly fee and lower development professional services from Goldman. As a reminder, we converted the managed services revenue we received from Goldman to a fixed monthly fee of approximately \$1 million, slightly lower than the run rate for the first 6 months of 2023. While the partial conversion to recurring revenue structure is beneficial from a visibility perspective, it will result in lower services revenue for the remainder of the year.

With that, I'll turn it over to Leland.

**James Leland Strange**  
*Chairman, CEO & President*

Okay. Thanks, Matt. I'll just probably emphasize a couple of things Matt said and then probably turn it over to questions because there are not a lot of new things to talk about.

Investors wanted us to lower the concentration of our largest customer, and we did it, but not the way I would like, and I always said let's lower it by just growth -- by keeping the revenue we have from them and growing other revenues. Well, we did grow other revenues, and that's again, I've said several times, that's the way you ought to look at the company, are we growing the other revenues. If we stop growing those, then there are problems. If we keep growing those, then we've got a great future long term.

The Goldman cutback in professional services was simply a part of their cost cutting. If you listen to their earnings call, they've made it very clear, they're going to try very, very hard to get the Platform Solutions Division profitable and quit losing money, and they've just dictated all the way down, just cut expenses everywhere you can. So, we ended up with a part of that. We do have that longer-term 2-, 3-year contract for a million a month for our managed services, but professional services are variable, and they can ramp those up or they can cut those back as they wish. And apparently, those are getting cut back.

It's -- we're not immune to what happens in the environment, both at Goldman as well as fintech generally. And I would say the private fintech market might be right for a shakeout, and I think we're in a good position to look at some of that. We're good in the sense that we've got almost \$32 million in cash. Our cash flow is fine. So, we'll continue pretty much doing what we're doing, which is growing our processing business outside of the Goldman business.

I guess I just mentioned we have bought back, I think, \$1.5 million worth of stock in the first 9 months. If we had known what was going to happen with the Goldman professional services, we would have been better stock pickers, and probably wouldn't have bought back at some of the prices in the mid-20s we bought it at.

We may be back in the market in the next -- in the month of December, if the stock takes a big hit due to this because we're very comfortable with our long-term outlook. We just have to settle through the Goldman issues here, and then we'll continue what we're doing.

Again, don't have a lot of additional comments. I think Matt covered about everything. Maybe I will focus on one thing. He mentioned that we had third-party revenue. I think you said about \$1.3 million from

ParkMobile, and that is going away completely. That was very, very little profit, but GAAP accounting requires us to put that on the top line as revenue. It's a program we entered into many years ago that -- and we knew it was not going to be highly profitable, but we wanted to do it to expand our services. So that goes away, not because they left us because they didn't like us, but they were bought by a much bigger company who has the ability to take care of this little part of what they were doing with us that they couldn't have done with their own platform in the past. So that will be a hit to revenue, but it will not be a hit to profit.

I will say that we continue to not expand, well, we're no longer really expanding in terms of employees at this point because we're going to have extra resources as a result of using fewer at Goldman, but we're not growing the base. We have, I think, 1,060 employees in India as of the end of October that we had a few more than that the previous month. We don't expect that to go down very much, because we can use those with the other customers that we're working with.

And with that, I'll just see if there are any questions. And as usual, we're always open to, along the way, once you've had time to digest the 10-Q and the reports and have other questions. So operator, let's turn it over to questions.

# Question and Answer

## Operator

[Operator Instructions] Our first question is from the Hal Goetsch with B. Riley Securities.

### Harold Lee Goetsch

*B. Riley Securities, Inc., Research Division*

I wanted to start with 2 questions. One is additional banks, what is the kind of environment we've had with the turmoil in the banking sector done to your pipeline? And as it relates to that, with the new platform coming out maybe next year, is that -- our prospective customers waiting for that platform to come out. That's my first kind of side questions.

### James Leland Strange

*Chairman, CEO & President*

Yes. The -- no one is waiting on the platform. They just want to get the job done. I've done the platform for something else, but I will emphasize -- and thanks for the question, the fact that we're going to continue to work on that and add more resources to it, it will be at least another year before it gets out completely. But no one is waiting on that platform. And we're -- so we're growing the other part of the plan.

### Harold Lee Goetsch

*B. Riley Securities, Inc., Research Division*

Okay. Yes. And on Goldman, could you just kind of reach out, did you say right now the contracts, 2- to 3-year contract at \$1 million a month, is that kind of roughly what you guys said here just a few minutes ago?

### Matthew A. White

*CFO & Corporate Secretary*

Yes. For the managed services piece of it, which is a portion of the professional 2 years -- 2 more years on that around \$1 million a month run rate. And then the maintenance contract, which is a part of the license agreement that goes through June 30, 2026.

### James Leland Strange

*Chairman, CEO & President*

So what's been variable is professional services and...

### Matthew A. White

*CFO & Corporate Secretary*

Which is development.

### James Leland Strange

*Chairman, CEO & President*

Which is development. And other things that might be platform related from their standpoint, things they want to see done. And that can end up being from \$300,000 a month to \$1 million a month. So it's very much of a variable. They want to keep it done on the lower side now.

### Harold Lee Goetsch

*B. Riley Securities, Inc., Research Division*

Okay. Okay.

### James Leland Strange

*Chairman, CEO & President*

And part of what you're doing is not necessarily -- not getting something done, but it's just a request to slow it down, you use your resources so you extend the date for getting things done by using fewer resources and more of the cost.

**Harold Lee Goetsch**

*B. Riley Securities, Inc., Research Division*

Okay. Okay. All right. And in general, is like it's card issue. I mean if you look at Mastercard, Visa, even Amex, these giant platforms continue to grow cardholders mid- to high single digit year-over-year. So the backdrop for card issuance is globally appears to be really, really good. And I just wanted to get your thoughts on the banks that you're serving, what's kind of the risk appetite in issuing the credit right in this time period?

**James Leland Strange**

*Chairman, CEO & President*

I mean, you're right, card issuing is still growing. And I've said before that in a bad economy, you may see the number of cards increase and decrease. You simply see more delinquencies, and you see maybe a smaller credit lines, but you don't see fewer cards, and we typically get paid on a number of cards. So, we're not concerned about the dollar value of what goes on cards. We're concerned about the number of cards, and we don't see any decrease in that. What we do see is some of our customers that, or our people that we talk to, that already have debit cards, and we're thinking about getting into credit card space, they are slowing down that process because they're concerned about the delinquency side. But people who are only in the credit card space, issuing more cards are not a problem as long as you manage the onboarding in terms of story. But there will be an increase in our bank cards, that's not slowing down. And there's, I guess, opportunity to -- again, I appreciate the question, because it has kind of given me a chance to think about something else. And that is number of cards. I don't want anyone to take away from this, the fact that we've not had any license revenue since the first quarter of this year, which, of course, does impact a lot, since that's all profit. But that doesn't mean that the Apple program has slowed down. Remember, Goldman has 2 programs. They have Apple and General Motors. And the reason that we've had no more license revenue. This is simply the fact that the way we get paid on active card numbers, and active card numbers have different definitions for different folks in the business. If you're a global system, you may have one definition for active cards. But then you also get paid for inactive cards. But this is a licensed deal with Goldman, so we don't get paid for inactive cards. We get paid for active cards. Now the active card definition, says if a card is not hit by some system, meaning somebody went to change the address, they went to make a purchase, they went to change credit limit, it doesn't really have to be a purchase, change the open-to-buy limit, that's still active if you do that within a certain month period. I'm not going to define the month, but let's say it could be 3 months, 4 months, 5 months, 6 months or something. So, they discovered that they were hitting a lot of cards, a million or more cards for things that they didn't really need to hit them with, and I'm talking about with an API, and therefore, they were still keeping them active cards. And so when they manage their cost well, they look and see, well, how can we not make those cards active since they haven't been buying anything anyway for in some cases years, so they did that. So therefore, it's taken a while for that to catch up. As Matt said, we expect to get license revenue in the first half of next year again. Hopefully, the first quarter, it could push up to the second. But the bank card program Goldman has is really good and continues to grow really well, and we'll get back on track with that next year once we're caught up with this sort of cleanup of cards that have gone inactive now. I added that to your question simply because I felt like I need to make that explanation, so people don't go away with the wrong impression out there, that Goldman's program is not growing, it's growing, it's growing well and doing very well.

**Harold Lee Goetsch**

*B. Riley Securities, Inc., Research Division*

So, to summarize, they're still growing new cards, but then there's also an inactive card group within the whole portfolio that they're looking to make sure they're not paying for things that they're watching their costs really closely and by taking some cards to inactive status they save money.

**James Leland Strange**

*Chairman, CEO & President*

That's right. But you can really think of it as almost a onetime cleanup. Now of course, you'll still continue mostly, but it was a onetime very big cleanup that won't happen again.

**Harold Lee Goetsch**

*B. Riley Securities, Inc., Research Division*

Okay. And that was the Q3 of that?

**Matthew A. White**

*CFO & Corporate Secretary*

That impact, yes, that's right. Oh, yes.

**James Leland Strange**

*Chairman, CEO & President*

Yes. As Matt came in the office this morning and said, dang, it looks good, but yet it looks so good. I mean it looks bad if one says, but it looks so good. We're fine the way we see growth going longer term here. And longer term, we're talking about next year whatever we've had a couple of these things that have hit us like the ParkMobile and like the cut in professional service revenue and then the cleanup of cards. So those are short-term things that we're comfortable with the rest of the business that we have going.

**Operator**

Next question is from the line of Avi Fisher with Long Cast Advisers.

**Avram Fisher**

The 10-Q called out expectations that 4Q will see some at long last, possibly some marketing spend. Can you sort of offer some color around that, how much, what's it for? Why now? What's the appropriate expectation on a payoff from that?

**James Leland Strange**

*Chairman, CEO & President*

I will. Yes, we finally have a salesperson who came from a competitor, so got experience in the business, and they'll be focused on selling financial institutions. So, it will not be short term. They'll be calling on the national institutions, who -- many of them will be like credit unions or smaller banks, who either have a credit program with somebody else or want a credit program. So, they'll be looking to try to generate business through that process. Again, you're free to tell me, you went in too long, Leland, and I'll expect that, but I sent it more in a sense that the economic environment changed, I think, faster than any of this is expected based on the Fed and what's now resulting. That put a hold on a lot of folks - a lot of people in banking. And I didn't expect that. We do have it. So, we recognize reality, and we now have a Vice President of the financial institution partnerships, FI Partnerships.

**Avram Fisher**

All right. And what you're saying is it's a long-term investment, don't expect anything in the near term on that?

**James Leland Strange**

*Chairman, CEO & President*

I would be very surprised if we get anything from that in 2024, but I would love to be surprised.

**Avram Fisher**

Right. Okay. A few other quick questions. You called out the non-Goldman revenues, roughly \$5.1 million apparently. What are the margins on that? Or if you can't just break that out, how does it compare to the sort of 30% gross profit margin blended?

**Matthew A. White**

*CFO & Corporate Secretary*

Well, yes, we don't break that out. But keep in mind that that's not a business that's at scale yet. So, the margins are going to -- it's going to be a little bit of a drag on the overall margins just given that it's a lot smaller revenue base.

**James Leland Strange**

*Chairman, CEO & President*

That's pretty small revenues to be...

**Matthew A. White**

*CFO & Corporate Secretary*

They're shared resources. So, it's not just like everyone works on just this part or just that part. So, there are some resources that work on both. So, it is hard to kind of allocate that. And it's not something that we look at too closely at this size.

**Avram Fisher**

And in your expectations, I think, you gave out some guidance. What is the -- what -- if you said it, I apologize, I missed it. What -- did you guide to what the ex-Goldman revenue growth should be next quarter?

**Matthew A. White**

*CFO & Corporate Secretary*

We didn't talk about it next quarter. There'll be some puts and takes. We talked about the ParkMobile the revenue and cost that will go away related to that. So there'll be some caveats. But we didn't give that specific number for the fourth quarter. But it will be, I would say, high single digits is what we expect.

**Avram Fisher**

Okay. And finally, there was a jump in deferred revenue on the balance sheet, which tends to bode well. Can you just discuss or disclose a little bit around that? Does that lead to future revenues? When does that hit, et cetera?

**Matthew A. White**

*CFO & Corporate Secretary*

It will hit over the next -- within the next 12 months. And most of that is just related to timing of payments, so some customers paying invoices a little bit earlier for services that we've invoiced for, but haven't yet provided. So a lot of that will come -- some of that will come in the fourth quarter, but a lot of it -- most of it will be in 2024.

**Avram Fisher**

And is that new customers, or is there existing customers and just timing issues?

**Matthew A. White**

*CFO & Corporate Secretary*

Existing customers, just timing.

**Operator**

[Operator Instructions] At this time, we have no additional questions. And I'll turn the floor to management for closing remarks.

**James Leland Strange**

*Chairman, CEO & President*



All right. Well, I just want to say thank you, everyone, for your continued interest in the company. And if you have other questions, as I always said at the end, please feel free to contact Matt, myself. We're happy to answer the questions. And we're very pleased with where we're headed long term, even though we're disappointed in the way that some of the numbers point out. But either way, we're going to keep doing what we're doing, even though we've now added salesperson. So thank you, everyone, for your attention, and we'll be talking to you later. Thanks.

**Operator**

This will conclude today's conference. You may disconnect your lines at this time. We thank you for your participation.

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