

CORPORATE PARTICIPANTS

Matt White

Chief Financial Officer & Corporate Secretary, CoreCard Corp.

J. Leland Strange

Chairman & Chief Executive Officer, CoreCard Corp.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to CoreCard first quarter 2024 earnings conference call. At this time, all participants are in a listen only mode. A question and answer session will follow the formal presentation.

[Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to Matt White, CFO. Thank you. You may begin.

Matt White

Chief Financial Officer & Corporate Secretary, CoreCard Corp.

Thank you. 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 will 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 first quarter results were in line with our expectations, with continued year over year growth in processing and maintenance revenue. Total revenue for the first quarter was \$13.1 million, a decrease of 11% year over year, driven by lower professional services revenue, primarily from our largest customer Goldman Sachs.

The components of our revenue for the first quarter consisted of professional services revenue of \$5.8 million, processing and maintenance revenue of \$6.2 million, and third-party revenue of \$1.1 million.

As expected, we did not have any license revenue for the quarter. Goldman represented 59% of our revenues for the first quarter of 2024, compared to 72% for the first quarter of 2023. Processing and maintenance revenues grew 13% in the first quarter on a year over year basis, primarily driven by the acceleration of \$0.5 million of revenue from a customer that was acquired in 2023 and formally terminated their contract in the first quarter of 2024. Revenue growth, excluding our largest customer, with 41% the first quarter on a year over year basis.

Revenue growth. I think our largest customer and the impact from our Park Mobile and legacy Kabbage business, and the \$0.5 million of accelerated revenue in Q1 2024 previously mentioned, 41% in the first quarter on a year over year basis, is expected to be 10-15% for the full year. We continue to onboard new customers, both directly and through various partnerships we have with program managers at Deserve, Vervent, and Cardless. As in previous quarters, we currently have multiple implementations in progress with new customers that we expect to go live in the coming months, including our recently announced commercial partnership with the Banc of California.

Turning to some additional highlights on our income statement: For the first quarter, income from operations was \$0.5 million compared to \$1.8 million for the same period last year. Our operating margin was 4% compared to an operating margin of 12% for the same period last year. The year over year decline in our operating margin was primarily driven by continued investments at our new platform and lower professional services revenue. The income statement impact of our new platform build was \$0.7 million in the first quarter of 2024, compared to \$0.4 million for the prior year period. We made some headcount reductions in

India, and we expect related cost savings starting in the third quarter of 2024. We will continue to look for cost savings as needed to remain profitable given the lower revenues we're currently receiving from our largest customer.

Our Q1 2024 tax rate was 25.7% compared to 24.7% in Q1 2023. We expect an ongoing tax rate between 25% and 27%. Earnings per diluted share for the quarter was \$0.05 compared to \$0.15 for Q1 2023. Adjusted diluted EPS for the quarter, excluding stock compensation expense of \$.07 compared to \$0.15 in Q1 2023.

Adjusted EBITDA was \$1.7 million compared to \$3.5 million for the first quarter of 2023. We have over \$24 million of cash on our balance sheet as of March 31st, 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 investing in our new platform and to continue buying back share, especially at current price levels. We repurchased 134,650 shares in the first quarter of 2024 for \$1.6 million.

We have approximately \$13 billion remaining in our current share repurchase authorization. For the full-year 2024, we continue to expect services revenue to be approximately flat compared to 2023. We expect license revenue to be approximately \$1.4 million likely in the fourth quarter of 2024. As I mentioned earlier, we expect growth from customers, including our largest customer, the impact of our Park Mobile and legacy Kabbage business, and the \$0.5 million accelerated revenue in Q1 2024 to be in 10- 15% for the full-year.

Within services, we continue to expect growth in processing and maintenance as our customers continue to grow and on-board new customers. We anticipate professional services revenue in the second quarter of 2024 to be likely in the range of \$5.7 million to \$6 billion.

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

J. Leland Strange

Chairman & Chief Executive Officer, CoreCard Corp.

All right. Thanks, Matt. I think that as you said, the quarter was pretty much as we expected. I see the results simply as a little better than breakeven. And I think I expect similar results in the next couple of quarters, say similar to, rather the right answer to what may be a little better, what might be a little worse. But generally, I would say similar the next two quarters hopefully significantly better in the fourth quarter, but the next two would be similar. The elephant in the room is and has been our largest customer, Goldman Sachs and variations of revenue from them, along with the question about what's going to happen in the future, because of the unknown. Let me address that positive things are coming from our continued increasing the revenues in the segment that's outside of the largest customer. Everyone wants to know what's going to happen with the Goldman situation, since they pretty much said that they're getting out of the business. I want to say very clearly that I have no inside information on that or what's going to happen. If I did, I couldn't talk about it. So, everything I say about it is speculative from my view and is not backed up by anything that's definitive that comes from the customer or any conversation.

First, I do expect the General Motors card that's being processed on the CoreCard platform at Goldman that it will go to another party either the fourth quarter this year or the first quarter next year. The Wall Street Journal speculated yesterday or a couple of days ago that Barclays is in the running for that card. Again, I would emphasize that even the article was speculation, and they didn't quote anybody or anyone that said that was definitive. It really doesn't matter where the receivables go from the CoreCard perspective., It's highly unlikely that we'll continue processing that portfolio, since it's a very plain card with no special requirements. Any processor could probably pick that up. It's fairly easy as a card, so I don't I just don't see any real problems with that.

The other card, the Apple Card is different. The Apple Card is one that is much more difficult. It has a lot of specialty kinds of things to it. So therefore, I would expect that not to be as simple to move somewhere else. There is, again, speculation that it will go to a new bank either the end of this year or early next year. When I say speculation, there's speculation that a new bank will be chosen. It's my opinion that is going to be something between Apple and the new bank. And it's not necessarily a Goldman decision, although they are obviously part of it. Again, we have no insight on that. We simply do what we do every day and we have to go along with whatever happens. I would also speculate that probably from today, we're still going to be processing that card for the next two or more years. Could be a long time. Again, we have no definitive answer on that. I constantly get questioned, well, what's going to happen – what's going to happen as if we should know, I'm just telling you, we don't know, we can't know, and by the way, when I do know, I'll probably have to say I can't discuss it. So that's going to be the

clue that I may know, but then I can't say anything because we're certainly not going to give any information out about our customers.

The next thing is then looking into the future. Well, we've got a handful of folks that we are talking to that are what I will call potential strategic customers. Now, what does strategic means? Strategic means that either they have the potential to be very large or they want to do or are doing a product that will extend the CoreCard brand and will help us get into new markets or help us still progress. What does strategic mean for the customer. It means that everybody at CoreCard, all thousand employees know that when that customer calls or what that customer wants, we're going to jump at it. And that's going to be the number one priority. That's what happened with the Goldman contract when they were strategic. Now it's simply ongoing as opposed to something strategic. You can't have a handful of strategic partners. You can only have, in my view, two or three. We have one right now. I'm going to call the Banc of California, a strategic partner. They have card leadership that wants to be innovative. They're willing to do innovation, and they help us together come out with a commercial card that we think the market is going to want. So once that gets live, you will see us actively promoting that card. They haven't introduced it yet, but I think it will be introduced in the next month or two. So that's a strategic partner. Of the handful of people we're talking to I hope to get, again, two more, because the maximum we can have is three, and we'll be treating them the same way. All I ask everyone is to support it. I hope one of them or two of them or both of them already have significant revenues. But we're talking to a handful, some that have significant revenues, some that do not, but have the potential to be significant partners.

So, we're looking and really spending our time thinking about the non-Goldman business, and we are going to manage our expenses toward that and simply that's where the resources will go. Let me just make a comment, I think last about what's happening in the business in general. The business in general is, yeah, there's a little bit of a cap on it, because of regulators. Now CoreCard has always taken the approach that we work for the regulators. We work for the OCC on one end or the FDIC, whoever is controlling or regulating the bank. And we work for the cardholder on the other end. If the Cardholder's happy then you won't have the regulatory issues at the bank.

So, it's, the fact is we work for the regulator, and recently the regulators have issued consent orders to a good number of banks that have been sponsoring Fintechs. The reason for that is they've been lax in program management, and they've been lax in terms of the money laundering and know your customer type activities. So, the banks have a bin that they rent out or provide to a program manager. And up to this point, the bank has said, have delegated and said to the program manager, you take care of AML and we're counting on you're doing it right. The regulators have come back to the banks and said, no, you can't delegate it. They can do what they do, but you bank – you are responsible totally. So that is all of a sudden caused a good number of banks to have to say, we're taking a pause until we reorient our compliance procedures to take care of what the regulators are saying at this point. So that does – that does new intake type capability. On the other hand, the folks that are already out there that are not new fintechs are doing fine, no regulatory issues there. And those are the ones that we are tending to approach at this point.

So with that, let's just open up to questions. That's my view, who we are now and what's happening.

QUESTION AND ANSWER SECTION

Operator: Thank you.

[Operator Instructions] Our first question is from Harold Goetsch with B. Riley Securities. Please proceed.

Q

Good morning, guys. I wanted to ask you about what you mentioned toward the end of this call, and that is the potential for one to three strategics and you mentioned one or both might have significant revenue. Does that mean they would – they would bring cards that they already have on to your platform, and that would be the new processing platform for an existing portfolio or could you help us understand that a little better? Thanks.

A

Yeah. That would require a conversion. And we're very good at conversions. We've got a good history of that. That's obviously one of the issues with those, but we have a really good history and have we have no hesitation in taking on the project of converting a portfolio. So, yeah and again that makes us sloppy if we get one of those now it's something I didn't say, and I should mention here. Two of them do not have contracts at the end with their current process or until they one in June of next year and one in October of next year. But they'll make their decision by June to October of this year, and we will start working probably 12 months before their contract ends, but the revenue would come in until next year. So, it's 2025 revenue.

Q

Okay. Okay. And then I'm moving on to on the fintech issues with the blind side. It just, giving fintechs you're working with you mentioned, Deserve, Vervent and Cardless. Are they in that camp taking the pause?

A

No. No. No. None of the customers at CoreCard are having that problem. But there is probably there are customers that currently exist I'm having a problem. But none of our customers have a problem but if I think about it, they are dealing with some of the banks that have gotten consent orders. But all that means for the bank, is they can't do something until they get everything lined up on their side. So, it is not impacting to my knowledge, any of our current consumers.

Q

Okay. And this will affect your understanding of the revenue guidance? Can you clarify the revenue growth ex-Goldman, is that just services or is that everything?

A

Everything. All revenue.

A

Everything. And I should go back and clarify the \$500,000 that we put in this year. It was a previous customer who was only paying us minimums, they had only gone live with friends and family, and they got purchased by another processor. So the other processor obviously wanted to get them on their platform, not ours. So, they took it off. Now that we looked at, should you just continue to spread that over the term of the contract? But really, the auditors and Matt determined that, you know, we have no more services to provide, so therefore we're going to have to take it all in the first quarter. That's going to make it difficult on some forward comparisons for the next couple of quarters but the initial \$500,000 that was a one-time increase we're not going to get now. So that's why I said earlier, I expect our next two quarters to be similar to this quarter.

Q

Okay. Thank you.

Operator: Our next question is from Avi Fisher with Long Cast Advisors. Please proceed.

Q

Hi. Thanks for taking my question. I hopped on a little late. Did you mention anything about expectations of license revenues this year?

A

\$1.4 million likely in the fourth quarter. I'm not sure it's possible that may differ a little bit in terms of predicting, but it's possible.

Q

Okay. And then and then two quick questions. So, do you generate any one time or quote unquote, excess revenues as the General Motors car leaves?

A

No.

Q

Is there any like special work you have to put it?

A

I mean, there might be a little bit of work, in terms of the conversion off of the platform. We haven't assumed anything at this point. The timing is still pretty uncertain as to when that might happen.

I wouldn't expect any big increase on that, but obviously it'll just offset some of the other professional services that we're doing.

Q

Got it. And then within that, General Motors, it doesn't – does it change your contract with Goldman or they're still going to pay you what's based on that contracted rate?

A
It doesn't change our contract with Goldman.

Q
Got it. Okay. And then could you talk about the revenue generation on these strategic opportunities? So for example, you have a processing customer. They're going to pay you over time on monthly accounts. So, essentially on day one, you're not getting paid a lot, but if the card is successful a year or two out, you start making a lot of money, a lot of – at a high incremental margin. But what is the revenue generation and margin profile of a strategic before it starts, before it goes live and before those monthly accounts start accumulating?

A
The strategics are so different. I can't answer the question. I'll give you an example. Banc in California strategic revenue is basically nil at this point. It will grow, but it's nil. So, they're all five or six we're talking to do a deal for the two or three – with the two, I can only take two strategic really the two that we get, I can't predict which one we will get. In some cases, it will be some revenue immediately, but that's not until their contract expires then they go right next year. They're maybe we're talking two weeks; they could get a significant chunk this year if we get that one now. Each of these parties, in my opinion, we're not going to lose them to somebody else. But they may stay with their current provider. So, I'm not out there predicting revenue from them.

Q
Sure, that's fine. But just so I understand, I mean, to bring on board, say, Banc of California, you have to spend professional. You have to spend money to set up. To set up the platform for them and you don't generate.

A
Yeah. We're spending money every month on that. And it's not. It's just an expense. We're not building it up into reportage. I mean, it might be a tiny bit of that, but we're trying to be very conservative on it. So yeah, there may be, I think there is a little bit there, but we're working on that every day.

Yeah, everything we've done is, is primarily historical and you know, we expect a public launch in the coming months on that. So most of those costs have been incurred already. And, you know, the balance sheet hasn't changed significantly over the last 12 months in terms of what we've put on related to those costs incurred.

Q
Right. So just so I understand, though, ahead of a launch of a strategic. Your margins will be lower because you're spending money and not generating any revenue off of it. And then the launch and if it's successful, margins go up because you're generating revenue without a lot of incremental costs. Is that kind of the right way to think about it?

A
You know, a lot of those costs incurred, you know, so similar to like if we charge an implementation fee that's going to go into the deferred revenue line. The costs associated with getting ready for a new launch also go onto the balance sheet into a deferred cost bucket, which has never been significant, never been a separate line item. So, there really isn't a huge margin impact as you're describing.

Q
Okay. Well, what you – can you then talk about the opportunity to grow your EBITDA margins?

A
Again, the way we're investing strategic, we're just not looking at margin there. Yeah, we're looking at future potential and not concerned ourselves about percentage margin.

Q

Yeah. I hear what you're saying. Thank you very much.

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A

Exactly.

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Operator: There are no further questions at this time. So, this will conclude today's conference. You may disconnect your lines.

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Let me just...

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Operator: Go ahead, Leland.

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Yeah. Let me just kind of give a quick summary just to say I'm very optimistic, the potential we have for 2025 to be a good growth year outside of our largest cautionary customer. As I said earlier, I don't think we'll be in a position to be very definitive on that until late third quarter. And another note I missed earlier, but Matt did mention we continue to invest in the new CoreFinity or core fiber platform there, slated to be available in the fourth quarter of 2025. If I were to take a look back at our strategy that we had planned of Goldman Sachs being a partner that was going to bring additional platform, and we've been building a bench to take care of that growth. We were counting on growth to come from that partnership with that being the number one partnership or the number one strategic customer. When they decide to exit the business. We really were not prepared to really ramp up business development, and I'm going to have to acknowledge that it was my mistake to believe that the partnership would be sufficient for our future growth. Actually, I should say it would have been sufficient for growth if they had not changed course, but they did. So now we're dealing with that. We're managing expenses. We have new products come in and we have a good number of prospects that we're talking to. So, I realize there's a period of uncertainty, but I'm pretty confident that we have the only moderate revolving card platform that is not in the hands of the multibillion dollar companies that's going to survive over the long-term. So, we're pleased that those of you that our current shareholders, remain shareholders, we're happy to continue the dialogue with anybody that would like to talk to us. Thanks for being all the talk today everyone.

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Operator: Thank you. We will now conclude today's conference. You may disconnect your lines at this time and thank you for your participation.