

**CoreCard Corporation NYSE:CCRD**  
**FQ1 2023 Earnings Call Transcripts**  
**Thursday, May 04, 2023**

# Call Participants

## EXECUTIVES

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

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

## ANALYSTS

**Avram Fisher**

**Harold Goetsch**

**Khadir Richie**  
*Richie Investment Advisors, LLC*

# Presentation

## Operator

Greetings, and welcome to CoreCard's First Quarter 2023 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Matt White, Chief Financial Officer. Thank you. You may 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 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 2022 Form 10-K and subsequent filings.

As we noted in our press release, our strong performance continued in the first quarter of 2023, and we are pleased with our services revenue growth of 25% on a year-over-year basis. The components of our revenue for the first quarter consisted of professional services revenue of \$8.3 million, processing and maintenance revenue of \$5.4 million and third-party revenue of \$1 million. As expected, we did not have any license revenue for the quarter. Total revenue for the first quarter was \$14.8 million, a 39% decrease year-over-year, driven by a decline in license revenue from \$12.5 million in Q1 2022 related to the conversion of the General Motors portfolio compared to zero license revenue in the first quarter of 2023, which again was expected.

Services revenue, defined as total revenue minus license revenue grew 25% in the quarter on a year-over-year basis. Within services, processing and maintenance revenues grew 34% in the first quarter on a year-over-year basis, and professional services revenue grew 27% on a year-over-year basis. Revenue growth, excluding our largest customer, was 23% in the first quarter on a year-over-year basis, excluding revenues from both Goldman and GreenSky and acquisition of Goldman completed in March 2022. We continue to onboard new customers both directly and through the various partnerships we have with program managers, such as Deserve, Vervent and Cardless. As in previous quarters, we currently have multiple implementations in progress with new customers we expect to go live in the coming months.

Turning to some additional highlights on our income statement for the first quarter of 2023. Income from operations was \$1.8 million compared to \$11.8 million for the same period last year. Our operating margin was 12% compared to an operating margin of 48% for the same period last year. The year-over-year decline in our operating margin was primarily driven by previously mentioned lower license revenue and 2022 hiring in India. Our head count was mostly flat from year-end, and we expect to stabilize our head count in 2023 as we continue to grow our revenues without adding a significant number of new people.

Our Q1 2023 tax rate was 24.7% compared to 25.8% in Q1 2022. We expect our ongoing tax rate to be between 25% and 27%. Earnings per diluted share for the quarter was \$0.15 compared to \$1 for Q1 2022. As noted in our press release this morning, for full year 2023, we expect growth in services revenue of approximately 10% and license revenue to be between \$3 million and \$7 million. We expect growth from customers, excluding our largest customer, which is all services revenue to be approximately 20%. We expect license revenue in future quarters in 2023, starting in the second quarter. However, it's difficult for us to predict the timing of license revenue for Q3 and Q4 for reasons we've discussed previously.

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. Professional services revenue continued to be strong in the first quarter, and we anticipate professional services revenue in the second quarter of 2023 to be likely in the range of \$7.2 million to \$7.4 million. We're expecting some slowdown in the

growth of professional services for the rest of 2023. However, we expect that revenue stream to remain at a high level. And with that, I'll turn it over to Leland.

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

Okay. Thanks, Matt. This is a quarter where I'm going to have very little to add to Matt's comments. The quarter was actually stronger than we had anticipated, even what we had anticipated at the beginning of the quarter. But I don't want to read too much into that. As Matt said, we're going to be cautious for the rest of the year. All of our customers are carefully watching their spend as we are. We have previously, even a year ago, said the year-to-year overall comparisons would not be good as we had a very large record license revenue in the 2022 quarter that was not repeatable.

From an overall business perspective, we continue to bring on new clients, albeit smaller ones, all of whom hope to grow to be larger in the future. Every quarter, we have new customers going live with new offerings. The likelihood of a big name or a big conversion is not as strong today as it was even 6 months ago due to the turmoil of the banking sector. We're still having those conversations, but I have to believe the risk appetite for banks is greatly diminished, and they'll surely prefer to just remain under the radar.

We'll see how long that lasts. No one knows the outcome as the regional banks now are really under the gun even today as we speak. We've seen stock pricing for a couple of major regional banks go down 20%, 30%. So that does impact us. We do have a smaller bank that will be going live this year for sure. We may have 2, but I don't have anything big right now as folks are just talking and saying, we're -- what you can see, kind of see how things develop.

I'm going to -- I got an e-mail yesterday. It was a question from a shareholder. And I thought I'd share my answers that I gave him with you, and then I'm going to comment on the ISS vote recommendations, which will conclude my comments before we have -- open it for questions. So one of our shareholders sent Matt an e-mail yesterday or the day before and said, "well, there's not many questions being asked on the call. So would you guys be willing to answer this?" So here are the questions. Does the Apple savings option involve the use of CoreCard software?

And if so, what impact is there for CoreCard? I answered that by saying the Apple credit card is used for Apple information gathering, but not directly involved in savings option. You do have to have a credit card to get the savings account, so that helps to increase the number of cards and CoreCard benefits with more cards. I will add, of course, they're offering 4.15% savings. So that definitely is causing more cards to be added as people want to grab that savings at Goldman.

Second question was, does the Apple BNPL option involve the use of CoreCard software? And if so, what impact is there for CoreCard? I answered similar to the above. CoreCard is not directly involved with Buy Now Pay Later for Apple.

The next question is a tough one, but I might go ahead and read it. So what percentage of the software engineers hired in the past 12 months are working such that they are directly contributing to the net profits of CoreCard? I think the question was really, you're still hiring or the people that you're hiring are they making money? So my answer was, this is not answerable as engineers are hired for a variety of tasks, and we do not separate engineers that are directly in revenue-producing tasks.

For example, our license customers pay us maintenance as a percent of the license and some engineers are working on things that have immediate impact and others on longer-term projects that will benefit largely other maintenance. And then 2 more questions. One is how much of CoreCard's free cash flow is being used to develop the upgraded software? And when do you expect the upgrade to be significantly completed? My answer, you don't separate the income streams in the free cash flow. So again, not answerable.

Software in this business is never complete. We will be using some of the new software this year, but it will be at least 2 more and maybe 3 years to fully have a conversion. And finally, the last question was how much benefit would the upgrade software be to attracting new business or creating a significant competitive advantage for CoreCard over its competition? My answer, management

believes the new software is required to be competitive 3-plus years out, even though the older software will still be used. The new software should have lower operating costs, which will be advantageous in bidding for new business.

There are no silver bullets that will provide significant competitive advantage as decisions are made, not only on functionality and features, but also pricing. So I got a response to my answers, which -- let me see if I could find that, which I thought was surprising. He said -- and we won't give you his name. He said thanks for taking the time to answer my questions. I appreciate your straightforward approach. Your shareholder's letter stated you're building the company brick by brick. Then he said, that "the first stock I bought when I moved to Atlanta was INS (now CCRD) around 43 years ago. I look forward to the conference call."

So thank you for the questions, and I will also say thank you to many of our long, long-term shareholders. I think we're very unusual in the sense that we have a bunch who've really stayed around for a long time.

My next comment is going to be about Institutional Shareholder Services ("ISS"). As the institutions know but all shareholders may not know, the ISS actually sends out recommendations to institutions on how they should vote for -- at the company's corporate annual meetings. Last year and also this year, they recommended that the institutions vote against the Chairman of the Audit Committee. And it's simply because the ratio of audit to nonaudit fees is higher than a certain minimum. Now it's good policy, frankly, to keep audit separated from consulting fees to make sure you don't pay your auditors, and we totally and completely agree with that.

In our case, it's somewhat different, and Matt may weigh in on here. Just to give you an idea, this past year, our audit fees were \$112,000, but the other fees that were billed were \$188,000. So audit \$112,000, other fees \$188,000. That means the ratio is greater than 50-50, which is kind of their minimum cutoff in terms of the audit to non-audit fees. The reason we have \$188,000 in other fees, though, is because of SOC compliance that's required for companies that are in processing services. These are not consulting services and Matt, help me out here, but they're totally independent.

**Matthew A. White**

*CFO & Corporate Secretary*

They require our auditor to be independent. And so if they're not independent for those services, they wouldn't be able to provide them similar to the way they need to be independent in providing audit services. So we kind of view those in a similar way, although they do fall under the non-audit services bucket for purposes of the proxy statement. And ISS looks at that as just non-audit fees and then calculates the ratio as Leland said.

**James Leland Strange**

*Chairman, CEO & President*

Now that \$188,000, most, majority of it is actually repaid to us by our customers, Goldman Sachs and others. And we simply use our auditors both in our own environment as well as the other environments in order to get some efficiency in the costs. We could easily go and get a third party just so we can beat the rule, but our costs would go up, and I'm choosing to spend the shareholder money in the best way possible, rather than worry about that particular formula. But it will cause a recommendation against a vote for whoever may be the Chairman of the Audit Committee on any particular year. Hope that's helpful for some of you. With that, I'm going to open it up for questions. Don't really have a lot of other comments.

# Question and Answer

## Operator

[Operator Instructions]

## James Leland Strange

*Chairman, CEO & President*

If there are no questions, I think we did have one sent in. Let me kind of rephrase it if they ask, are there any game changers coming up? And I think I answered that, given the current environment in the banking environment, I'm not going to project any game changers coming up. We're going to continue brick-by-brick, build the company, staying profitable and waiting the time out to some of this turmoil, so then we'll go back and look to the game changers. With that, I just want to thank you for your...

## Operator

We do have a question, I'm sorry.

## Matthew A. White

*CFO & Corporate Secretary*

Okay. Great. Go ahead.

## Operator

We have a question from Hal Goetsch with B. Riley.

## Harold Goetsch

I've got a quick question on -- first question is on expense growth. I think you mentioned you're going to hold employee count pretty steady after a big investment in head count over the last year. I think -- and did the -- I think your 10-K said, I mean, the total employees around 1,200 when you filed it and maybe -- it was 750 maybe 15 months ago. Do you think that this is a pretty good level of G&A spend and service spend in dollars for the rest of the year that we're seeing right now?

## James Leland Strange

*Chairman, CEO & President*

Well, I'm going to share personnel. In terms of head count, it's going to remain pretty steady. I think inflationary costs, I don't know how to predict all of those yet. So there probably will be an increase just simply due to inflationary costs. But generally spend is under control, and we'll be watching it. I'm going to even say more carefully than we have in the past, given the fact that we're holding a little bit right now. But personnel pretty much stay in this neighborhood. It all depends on people we lose. We'll continue to hire, but you also always lose and you may not get that ratio exactly right all the time. But it's going to be -- what do you think, Matt...

## Matthew A. White

*CFO & Corporate Secretary*

Yes. That's right. We should be able to stabilize hiring this year. Maybe there's a little bit of up and down quarter-to-quarter, as Leland said, but kind of keep that steady and continue to grow revenues with the current level of head count that we have.

## James Leland Strange

*Chairman, CEO & President*

But the other expenses are mainly going to be quite inflationary. So there will be some increase in future quarters.

**Harold Goetsch**

And my next question is on maybe the mix of, generally speaking, of what are the kind of companies that you're quoting right now for new card programs between international issuers, domestic issuers, large and small. And then emerging fintechs that are still growing accounts and what the add card programs, kind of what's going to lay the land right now after Q1?

**James Leland Strange**

*Chairman, CEO & President*

Yes. It's a little of all of those, and it's hard to put a percentage. There's going to be some international growth we expect. It's not going to be huge, but there will be some international. We continue to add emerging fintechs and we're continuing to -- we will add some folks who are -- I'm not going to call them emerging fintechs, but they may be starting to progress, maybe some smaller. We do have some smaller banks that are going to continue to do some things. But the midsized regional banks are not going to do anything. So we're in conversations, but I'm just trying to give you my best guess of the lay of the land that it's not going to happen. I can't imagine them, despite the conversations, deciding to make a change. They are -- I just can't imagine them wanting to get out in front of regulators on any kind of risk whatsoever.

**Harold Goetsch**

Okay. Okay. And if I can ask one follow-up. Are you seeing issuers looking for differentiation in the marketplace by offering new types of cards, like metal cards or economically -- ecocards. Is there -- are you seeing any...

**James Leland Strange**

*Chairman, CEO & President*

Yes. So it's not so much, the physical card that we're seeing, we're seeing differentiation in terms of offerings. And mainly, what we're seeing is that people want to be able to make changes to their program faster. And that's really hard to do with the large, legacy processors and for good reason. So that's not to knock them, for a good reason they got a lot of people on their system and you've got to be very careful. And you've got to define changes well out in advance. So many of what we're seeing is people want speed to market, as they see the landscape change, they want to offer new things quickly. And in some cases, the bigger guys want to try out some things that they don't even know what are going to be hugely successful or not, but they want to test them.

So we see -- we're talking to the bigger guys mainly who say, "We want to move quicker. We want to have more flexibility." In terms of the ongoing processing, it's fine. We're happy what we're getting. And we're really happy with the price we're getting. But we would like -- but we're stuck. We can't have the mobility we'd like to have. So that's kind of what we're hearing.

**Harold Goetsch**

Okay. And what's an example -- last question from me and I'll get back in the queue -- back in the queue if there's more questions. But what's kind of the example of a tactical change that your software allows you to make quickly? Is it like allowing a card to have maybe an installment loan on the same statement...

**James Leland Strange**

*Chairman, CEO & President*

That could be one, but you just might want to -- I'm not going to say just interest rate, but you might want to layer as an example recently where a commercial bank said that we want to issue a card that would let folks if they pay it in 7 days, there's no interest. If they pay in 14 days, there's this much. And if it's 21, it's this much, and if it's 30, it's this much. And if it goes over 30, we don't want to allot maybe more credit. Now you could take all of those parameters, but boy, that's really hard when you start cascading the different interest rates in a particular month -- in a particular statement cycle and make sure you get it right for the regulators. So that's just a little example.

**Harold Goetsch**

No. That's just pretty complex. Yes, I mean that's kind of...

**James Leland Strange**

*Chairman, CEO & President*

We could do that, and we can do it pretty fast. We can set up a sample program. They can do that and test it in a week or 2, where it's going to take months to do it somewhere else. So it really is more of a state of mind, I think, where the larger guys know that they are hung, so they don't need any innovative thinkers about how we could change our program, what we could do with our customers because they can't do it quickly anyway. So they're not all sitting there. Well, we got 100 ideas, but they're sitting there and say, well, we've had ideas and we couldn't implement them. What would happen if we come with you, how fast can we implement them.

**Operator**

Our next question comes from the line of Khadir Richie with Richie Capital Group.

**Khadir Richie**

*Richie Investment Advisors, LLC*

I wanted to see if you could give us a bit more insights on the type of upgrades you're making to your software to the extent that you can talk about it. What's the high-level strategic evolution strategy? And then -- and also really like to get your thoughts on the evolving ecosystem within card processing. And where do you see the market going? And what gets you excited as far as future CoreCard opportunities?

**James Leland Strange**

*Chairman, CEO & President*

Sure. In terms of what we're doing in terms of -- I don't know who that called it rewrite a new version, but it's being written. What we're doing is coming from a blank sheet of paper. It's not using what we have other than business knowledge. So it uses all the latest technologies that are in place now including anticipating things that are being talked about, so you can even talk about AI with that. But the idea is that you want to make sure you have the latest and greatest software out there 3 years from now -- 3 to 10 years from now to do what may happen. And that ties into your next question -- let me add one more, then I'll tie it in.

And the other thing is, obviously, when most of us wrote our software originally, you have the cloud that's around. And yes, we've made it work on the cloud, but we didn't have full understanding of the applications of how many data centers will be out there? How do you do this internationally? How do you go across different time zones? How do you settle throughout the world -- internationally? The way moving -- money is moving now. So we've taken everything that we know and what we're projecting, and that's where we're going next in terms of writing new software.

So in terms of where I see the landscape, and I'm talking about several years out right now is that instead of allocating money in your wallet into a bunch of different pockets, it really is just money. And whether it's in a savings account or whether it's on a credit card or whether it's on what we'll call a Buy Now Pay Later or whether it's on an installment or whatever it is, it's just money in your wallet and then there's decisions made about how best to utilize that.

Now I guess, go back to what I just saw a while ago, you said now Apple's Buy Now Pay Later is not really in what I'm going to call our wallet. It's in -- well, I mean it's all a wallet, but it's not all on the same account that we're keeping for the credit card. What envision in the future is all of these things are going to be on one account, and it's just money. So we're trying to build a system that will put all of this in one account and then wallets will determine how it gets distributed. That's at a very high level.

**Khadir Richie**

*Richie Investment Advisors, LLC*



Okay. And then just one follow-up. With the legacy processes that haven't been as aggressive about making this evolution of evolving with the market, like where do you feel like they'll stumble?

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

It's little by little. They're not going to really stumble. It's just going to be a slow erosion from what they're doing now. So I don't see any tipping point I see erosion. And look at what they're doing now, you can see that. Look at the reorgs they are all trying to do, the big guys. Getting rid of global -- Global Payments putting back up, getting rid of Worldpay. So I just see this as stumbles. Many of those stumbles will be covered by reorgs, which often happens or acquisitions. But nevertheless, when you look through it, they're just stumbles.

**Operator**

Our next question comes from the line of Avi Fisher with Long Cast Advisers.

**Avram Fisher**

I had 2 quick questions. The first one, I'm bad at Math and I'm wondering if you could help me with it. So you guys did roughly \$70 million in sales last year, and you're guiding to 10% top line growth, which gets to 77%. You're guiding to license of 3% to 7%. So at the high end of that...

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

What we said was 10% services growth. We've said, for a year, we're not going to be able to add back all of that license revenue this year.

**Avram Fisher**

Right. So you're talking about 10% growth on the services side?

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

Yes.

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

That's right.

**Avram Fisher**

So 54 plus 5 gets to 60-ish?

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

Right.

**Avram Fisher**

And thank you for the clarification. And just to layer on top of that, Goldman is roughly flat. So that entirety of that 10% growth is roughly incremental like new customers coming on board?

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

Roughly. I mean there's going to be some increase on. Well, we don't know...

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

You have to look at the components of the revenues there. So you've got the decline in license revenue from \$16.1 million to \$3 million to \$7 million. That's Goldman related. And then -- so you're going to see some services growth from Goldman, but then also...

**Avram Fisher**

Then most of it is from new customers.

**Matthew A. White**

*CFO & Corporate Secretary*

Right. That's right.

**Avram Fisher**

So do you get some scale in that and therefore some sort of leverage on the margin there, up from when you were 34% on the services side this quarter?

**Matthew A. White**

*CFO & Corporate Secretary*

Well, we do expect as we stabilize our head count and just kind of look at all of our costs and continue to grow revenues, we should see some leverage on the services margin in 2023.

**Avram Fisher**

Got it. Okay. And then the second quick question is you've invested in the Middle East. You've talked about investments in the Middle East. Revenue has grown there year-over-year, but it's still fairly small. And I just wondered if you could talk a little bit about sort of where that business could go, where it is relative to your expectations?

**James Leland Strange**

*Chairman, CEO & President*

We expect it continue to grow. It's going to be small, but it's continuing to grow. We've got some new things planned for this year.

**Operator**

There are no further questions in the queue. I'd like to hand the call back to management for closing remarks.

**James Leland Strange**

*Chairman, CEO & President*

Well, again, thank you for both your questions and for your time. Always if you have further question, Matt and I are available to try to answer those. But again, thank you for your continued ownership in the company. We'll continue to try to be good stewards of that trust you placed in us. So thank you.

**Operator**

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.