

**CoreCard Corporation NYSE:CCRD**  
**FQ1 2022 Earnings Call Transcripts**  
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# Call Participants

## EXECUTIVES

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

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

## ANALYSTS

**Anja Marie Theresa Soderstrom**  
*Sidoti & Company, LLC*

**Mark Anthony Palmer**  
*BTIG, LLC, Research Division*

# Presentation

## Operator

Greetings. Welcome to CoreCard First Quarter 2022 Earnings Conference Call. [Operator Instructions] Please note, this conference is being recorded. I will now turn the conference over to 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. I'll provide an overview for the first quarter of 2022, and Leland will add some additional comments, and we'll answer questions at the conclusion of our 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 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 2021 Form 10-K and subsequent filings.

As we noted in our press release, our first quarter results were at the high end of our expectations. Our professional services revenue remained strong, and we saw both sequential and year-over-year growth in processing and maintenance. As we expected and noted in our Q4 remarks, we had significant license revenue for the quarter. This amounted to \$12.5 million, making Q1 an impressive quarter for CoreCard. We would also like to point out that we expect more license revenue in the quarters to come. The drivers of the license revenue during the first quarter were onetime fees for moving from a single institution to multiple institutions, additional license tiers achieved due to completion of a large conversion and continued growth from existing customers.

Total revenue for the first quarter of 2022 was \$24.3 million, an increase of 172% compared to the first quarter of 2021. Revenue from our largest customer, Goldman Sachs, was 84% of total revenues for the first quarter of 2022. We do expect that percentage to decline in future quarters as other customers continue to grow. Revenue growth excluding our largest customer was 49% for the first quarter of 2022 compared to the same quarter in 2021. In addition to the license revenue of \$12.5 million, revenue for the first quarter consisted of professional services revenue of \$6.6 million, an increase of 14% versus prior year; processing and maintenance revenue of \$4.1 million, an increase of 56% versus prior year; and third-party revenue of \$1.2 million.

We had several new customers go live in the first quarter of 2022, including, among others, a crypto exchange, an international FinTech company expanding to the U.S., a newly launched debit card program and a new customer in the Middle East region. We also completed a conversion in April of 2022 for a regional bank's debit card program. The strong performance in our processing and maintenance was due to the recently added customers mentioned above and continued growth from our existing customers. We went live with the Al Fardan Exchange in the first quarter, which is another exciting step for our Dubai office and for our global prepaid processing platform that will drive continued growth in our processing revenues.

As previously mentioned, we recognized significant license revenue in the first quarter of 2022. We expect to achieve a new license tier in the second quarter and likely in the third and/or fourth quarters of 2022.

Professional services revenue was strong in the first quarter as expected, and we anticipate similar professional services revenue in the second quarter, likely in the range of \$6.5 million to \$6.7 million.

Turning to some additional highlights on our income statement for the first quarter of 2022. Income from operations was \$11.8 million for the first quarter compared to income from operations of \$1.5 million for the same quarter last year. Our operating margin for the quarter -- for the first quarter was 48%

compared to an operating margin of 16% for the same quarter last year. This increase was primarily driven by revenue mix, partially offset by some increased bonus accruals in the first quarter of 2022.

Our Q1 2022 tax rate was 25.8% compared to 26.1% in Q1 2021. Earnings per diluted share for the quarter was \$1.00 compared to \$0.12 for Q1 2021.

Turning to our outlook for the year. We expect top line growth of 25% to 30% for 2022 as compared to 2021, an increase from our previous estimate of 20% to 25%. In summary, we remain incredibly optimistic about our long-term prospects and believe the investments we've made in our infrastructure as well as hiring and training incoming talent will yield new customer wins and continued revenue growth. And with that, I'll turn it over to Leland.

# Question and Answer

**James Leland Strange**

*Chairman, CEO & President*

Okay. Thanks, Matt. I think you gave a pretty good description of where we are, where we've been, where we are and what we expect. I'm not sure I can add a whole lot to that. I'm going to go straight to questions. And obviously, I will answer at some point which is the elephant in the room, which Bloomberg article. But let me start with the first question that has come in. You realize that we still get questions over e-mail. I think it's questions@corecard.com, and we've got some good ones today.

So I'm going to take the first one. It's easy, but it is pertinent. Question is per the 10-Q, the shares outstanding at April 30 were identical to March 31. Why does stock repurchase activity not take place throughout April, while the stock price fell significantly?

Well, just like any shareholder, the company cannot purchase or sell stock based on inside information. Institutional shareholders know this, but for the many shareholders that called Matt or I in March and April asking if and if not, while we were not purchasing shares, the answer is that in early March, as we did the invoicing for February and we looked at our numbers, we realized we were likely to beat the informal guidance we had given.

You recall, we have said for several quarters, I believe, that we expected to have a very good first or second quarter this year, not knowing exactly when the license numbers would land as we have no control over the decision that our customers make. We would have really liked to have been able to buy shares over the last several weeks, but we could not and generally cannot from a point in the last month of a quarter. It's usually early that last month, until a few days after earnings calls.

I got a side comment to this. We have 2 good analysts that follow us from Sidoti and BTIG. While they occasionally call us with questions or to get additional color, they have no more information than any shareholder as the rules forbid us from any kind of selective disclosure. What they do have is the benefit of their models, and they digest all types of public information from many sources to make their best guess of our results. Generally, I think they do a phenomenal job knowing it is impossible to really model us or to model us well, at least. Even CoreCard does not have more insight on when our customers choose to promote their cards in order to get more growth or just lay low at except organic growth. So the analysts are going to be wrong in some quarters, just as management is wrong in their assessments on a particular quarter.

I think management was wrong this time in a good way, but it may not always be in a good way. But looking quarter-to-quarter, but we're pretty confident on our assessments when averaged over several quarters. We appreciate these analysts taking the risk upon a company with lumpy revenue that other analysts have looked at and dare I say, chicken out because they don't want to take the heat owing an inevitable miss as dealing with our lumpy stuff. So that's the story of CoreCard buying shares.

And I'm sure you observed in our release this morning that our Board has approved up to \$20 million for share buybacks. We're not going to do wild with this. This is simply approach buying -- we're going to simply approach buying shares as a prudent and conservative shareholder might. We're buying shares on behalf of our shareholders and investors, not to jack up the price as many of you might want. We're not buying shares today, probably not tomorrow, and we only announce what we have done during the quarter in the quarterly reports. So that's the share buyback.

The next question was, is the increase in your full year revenue guidance primarily driven by license revenue, non-license revenue or both? I'm going to say it's driven by both. Matt, is that?

**Matthew A. White**

*CFO & Corporate Secretary*

That's right. It's a combination of higher license revenue as well as higher processing and maintenance revenue.

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

Okay. The next question was, is Q1's \$12.5 million in total expenses, and that's cost of goods sold, G&A and R&D, which is we look at it, a good base for both to model or were there significant onetime bonus accruals in Q1, given the strong license revenue?

Well, obviously, prudent management would put in their accrual for bonus in a quarter like this. And yes, we did put some significant accruals in it. I don't know how to answer the modeling. It's just really, really hard to model this period. Matt, any other comment on that?

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

Not really. Just as you said, there's definitely going to be some bonus accruals a little bit higher than we had in other quarters. But yes, there's -- you kind of look probably more to Q3 and Q4 of last year for a better base. And we did do some significant hiring in Q1, and we do expect to continue to do that in future quarters.

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

And then the other question was how many additional license tiers do you expect to hit the remainder of '22? And any update on the pipeline of potential large new customers? And then further, would these be license deals or processing deals?

I don't think I can answer how many additional licensees. I think Matt said earlier, we do expect to hit additional license tiers. We don't know how much promotion some of our customers will be putting into increasing their card count. Some of them try to do it in the spring, some later in the summer. Some push it during the fall in order to be ready for the Christmas purchases, but there will be additional license tiers in this year.

As far as an update on the pipeline of potential large new customers, I don't expect a large new customer this year to be announced either directly or indirectly. We're going to have a pretty darn good year this year, and we'd be looking for that to happen sometime next year in terms of being able to have another large customer. At this point, we're getting close to letting our employees work as normal employees with normal hours as opposed to tons of overtime like we've had to do in the past in order to keep up. We're still stressed to some degree, but opening in Colombia is just beginning to help us in a small way, hasn't really contributed a lot yet. Additional employees have certainly made some difference. Again, they're not that well trained. So I'm looking for the rest of this year to hopefully continue to catch our breath and be pretty normal. Although, as Matt said, we're adding new customers every quarter. They're going live on our own processing. They're not big at this point, but many of them could be big in the future. So those that feel like that all we're doing is working for Goldman, that is not the truth. We do have a significant number of people working on other small to medium customers that could be large in the future.

Next question was I was hoping you could address the shrinking services margin. The product license revenue is very good, but I can't help but notice how services margin fell quite dramatically and has been falling in the last year or so. I understand your investment in the future, but any comments on if, when you expect to see that turn around.

Well, I'll let Matt answer, but let me just say, gosh, I'm almost offended by the word turnaround. We are absolutely not trying to focus on what our margin is right now. We're trying to build a large company and do what it takes to do that. And I couldn't care less. Maybe that's not a good thing a CEO should say. But I could not care less what my margin is on a quarter-to-quarter basis. Now Matt's the CFO, he may have a different view. I'll let him comment on that.

**Matthew A. White**

*CFO & Corporate Secretary*

Well, we will continue to hire and invest in certainly in Colombia and hiring in India. So that's the big driver of the decline in the margins over the last few quarters. But all the customers, as Leland mentioned, that are going live, those are -- some of those are new programs. So it's going to take time for those to ramp up. And as they do ramp up and as we continue to add other customers, the margins we expect to improve. But we're still not going to be focused on that quarter-to-quarter. We're going to do the right thing for hiring and training and adding new processing equipment for the long-term benefit of the company.

**James Leland Strange**

*Chairman, CEO & President*

Okay. Thanks. So that goes back to my comment about the problem analysts have or any of you have in trying to model us. We understand that and we have the same problem, but we're really focused on building the company on a profitable basis, which obviously, we are very profitable compared to some of the others out there. But we're not going to focus on what our margins are right now.

So the last comment are going to be about the elephant in the room. The subject is the Bloomberg article about Apple writing their own financial services software. Our comments here are probably going to be all I want to say about the subject today, and I'll probably repeat pretty much exactly the same if I can, so don't expect any more in follow up questions.

First, we're bound legally, and more importantly than legal, ethically, to not disclose any confidential information about most of our customers. And that will go for their customers also, particularly if it's not publicly available. Now things that are public, obviously, we can comment on. I and CoreCard take that very seriously, in a similar vein as the 2 companies we're talking about, Goldman Sachs and Apple. It's very important to them. It's equally important to us. So I will in no way directly or indirectly void that confidence.

Now that's pretty easy for me in terms of this subject, even though I believe I am more transparent straightforward than many CEOs, particularly in calls like this. I don't follow a rigid script and trying to tell it the way I see it. It should come as no surprise that the press also calls Matt and I for comments on stories as this one. But you didn't see any comment from us. And here's the key to the rest of what I'm going to say. If I don't have any confidential information about a subject that I'm not at risk of disclosing that, I am free to speculate, offer an opinion and go through logical progression just as you do.

So to be clear, I have no information that would lead me to believe that CoreCard software will not be used by Goldman Sachs as its main processing engine for many years. Now I'm not privy to the contractual arrangements between Goldman Sachs and their customers. And even if I were, I couldn't speak about them. But similar to my earlier statement, I have no reason to believe Goldman Sachs will not be processing the Apple Card for many years to come. And I have no reason to believe it would not be processed on the CoreCard software.

So with that, as the facts, I'm willing to speculate, just as you do. Keep in mind, I've always warned companies that I've been involved with to not count on logical decisions from large corporate entities. In fact, count on something that clearly appears illogical from your point of view, but might be perfectly logical from theirs as you're each dealing with different sets of information and really calculating from different angles.

But having said that, here's my, I guess, logical case for my confidence that CoreCard software will be processing the Apple card for many years. And of course, that's assuming they believe we can handle their volumes and our price is competitive. First, Goldman has a very large investment to this point in the CoreCard software. That's pretty obvious based on our earnings and our revenue in the last few years. It's a significant investment.

Second, the Apple Card rollout is the most successful new credit card introduction in history. And I would say that's by a long shot, incredibly successful. Of course, that's due a lot to the Apple features and

functionality and their own iPhone application. But that's also due to the ability of the CoreCard software to be flexible.

And I guess, next, I would say the Apple credit card is a complex offering with rewards and a family plan. It's very difficult, but of course, it can be done to rewrite that. It's much more difficult than most people would assume just being in the software business.

Next somebody actually asked this question, but I said, neither Goldman or Apple have access to our code for a rewrite. But frankly, they'd do it different anyway, just as we're rewriting our code in another way to continue to make it better and better.

There are a lot of software capabilities that would be attractive for a rewrite, that are far easier from a coding perspective or an operating perspective, and I would say, much more aligned and critical to the Apple ecosystem than credit. I believe absolutely that Apple is working on many payment software solutions, as the article said, directly and in partnership with others such as Goldman. It just makes sense. They have a great ecosystem. There's other ways they can offer installment sales. There's other ways they can line up with their retail establishment to make buying easier. And I believe they're probably doing that both directly and probably with Goldman. That's not inside information. I'm just telling you, I believe the article that, that is happening.

I do not believe they're working on a credit rewrite. And let me carry that a little bit further. I absolutely believe Goldman Sachs will diversify suppliers, vendors for credit card processing. It makes all the sense in the world for them to do this. I have no knowledge that anything is imminent. But the press talks about banking and debit card at Goldman, and I expect the debit card to be with another processor. While we do debit cards, we have no inherent advantage there, but we do have an advantage with credit. So it will not surprise me to see them to even offer a simple credit solution on another process or at some point. That does not mean they're going off of the CoreCard processing.

Let's face it. Goldman has big aspirations as they have expressed on their calls for the Marcus Bank, and that's going to require probably a lot more than what CoreCard could do on their own. And obviously, just as they're looking to diversify. We're doing the same thing with our other customers and building up our other side of the business. While we hope to remain and believe we'll remain a good partner with Goldman for the long term. Where we're going to also have another good business, just as they will have other processors.

I'd say, in summary, if you carefully read my letter to shareholders, you should get a very good idea of what we feel based on our daily interactions with all of our customers. As I said earlier, we want to be totally transparent with what we know and why we feel the way we do outlining the risk and the potential rewards. We're pretty confident with maintaining our current customers and growing them as well as adding new ones.

I think I'll end my comments with that and hope I've been as clear as I can be and as transparent as I can be in terms of the elephant in the room. We're -- we feel pretty good and it's business as usual for us.

So operator, at this point, let's take if there are any further questions that we can answer.

**Operator**

[Operator Instructions] Our first question is from Mark Palmer with BTIG.

**Mark Anthony Palmer**

*BTIG, LLC, Research Division*

Yes. Thank you and congratulations on the strong quarter. As we're looking at the license revenue in the first quarter, obviously, we had a significant conversion that had been anticipated and that occurred during the quarter. And Matt, you made reference to a few of the drivers of the license revenue beyond that. Just wanted to get some incremental color to understand why there was the outperformance in that particular line item this quarter. You had mentioned that there was one particular instance of a transition from single to multiple issuers in one case and growth among other customers. But it would be great to

understand what the other drivers were. And in particular, if there was any Apple-related license revenue that occurred during the quarter.

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

I'll let Matt speak but let me tell you, we could not differentiate on calls like this between Apple and other customers. We just had to talk about license in total. And I'll be looking at it Matt here, but our -- actually, I'm going to back a little bit. You remember last year, we consistently -- well consistently isn't probably the word for that, but we had to kind of change when we thought license revenue would happen because we're trying to second guess what our customers might do.

For example, that conversion, I think it was originally scheduled maybe for last maybe September, which would hit third quarter. Then it got moved into what would be the fourth quarter, and then it got moved into the first quarter. And none of that had to do with anything CoreCard does. And I keep emphasizing this, our customers make decisions based on things they're doing. So once we had a good feeling there would be first quarter, we talked about it. But I think we ended up with significantly more license revenue from several of Goldman's customers than what we'd anticipated. Matt, is that it?

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

Yes. It was a combination. So the 3 things you mentioned, Mark. It was that move from single institution to multiple institutions, which was conversion-related. And then there was the additional tiers from converting those accounts. And then there was also growth from existing customers as kind of the way we described it. So it was really those 3 things. And they were just -- there was maybe another tier than we expected in the quarter. So it wasn't way out of line from what we anticipated and expect future quarters to be more like Q4, Q3 last year.

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

Yes. The others would be more predictable because you had a couple of things working together. By changing categories, that onetime transition, that got compounded when you also ended up with another license tier. So it's more than what we normally be there. And frankly, I didn't expect it for that quarter. I expected it to be for this quarter. And so that's what happened.

**Mark Anthony Palmer**  
*BTIG, LLC, Research Division*

Okay. Very good. As you look at adding additional license tiers at Goldman, a lot of that is going to be based on the growth of the existing programs, but it's also going to be based on Goldman adding additional big clients. And I know that you don't have any particular insight with regard to when Goldman will do that. But how would you judge your capacity to add additional license clients at this point? You've done a tremendous amount of work upgrading your internal operations, a lot of investment over the last couple of years. Where do you stand now in terms of your ability to take on that much more volume?

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

Well, I would say that we could take on another large one at the end of the year, but it would push us really hard kind of like this last one. We're not ahead of the game in terms of being able to take on one. But if Goldman needed to convert another one by the end of the year, obviously, we would do it. But it would not be easy, but we would do it. It's not going to be easy for us to do it until more than a year from now. I mean, it's going to be -- yes, over a year, 15 to 18 months before we fill up. We really have enough employees to do it under normal business practices. Now we've got the kind of workforce that if we have to do something, we do it. So we're not going to turn down something that Goldman would have in the meantime, but we're not going to be in a position to sell something outside of that, that would happen this year.

**Mark Anthony Palmer**

*BTIG, LLC, Research Division*

Right. Now just looking forward a little bit further, when a large program like GM comes along, as we have seen, that you become aware of that, you prepare for that. But there's a lag time between the point at which you know that, that program is coming on and the point at which it launches and you achieve new revenue tiers and more license revenue. Given the fact that you're talking about a 15- to 18-month window here before you would have that additional capacity, just trying to understand, as you think about forward planning as it pertains to capacity. But by the time we get to 2022, the end of 2022, and whether there's a new partner that Goldman has brought on or not, it seems to me you would be in a position at that point to entertain more conversations with regard to bigger licensing programs. Is that fair that the end of this year, that kind of conversation will become more realistic?

**James Leland Strange**

*Chairman, CEO & President*

Yes, absolutely, given the time frame, we'd be in a position to entertain that towards the end of the year. Yes, without question. Now part of that formula, however, will be driven by how many other smaller or medium-sized customers we get. Because they also take some resources. So we really ramp up that side of the business. If we continue to ramp that up, that pushes out the bigger guy a little bit longer.

**Mark Anthony Palmer**

*BTIG, LLC, Research Division*

Very good. And one more question for me. You mentioned that among your new signings that you had during the first quarter, new customers was a crypto exchange. We're seeing tremendous growth in that space. What are you seeing in terms of the opportunity there? I know as you said previously, providing processing for crypto exchange is no different than processing for other financial institutions. But just in terms of pipeline, the amount of interest that those sorts of institutions have shown in CoreCard software. How would you size that up?

**James Leland Strange**

*Chairman, CEO & President*

Not a huge change. I mean it's still peripheral to the main business. It's not the main driver at all.

**Matthew A. White**

*CFO & Corporate Secretary*

They have enthusiastic customers and tend to grow pretty quickly, but it's still kind of too early to see how big it's going to be pretty early stages, but that is the second. We've got one through a partner and then now we have one direct. So that is our second customer in that space.

**James Leland Strange**

*Chairman, CEO & President*

Okay. Any other questions?

**Operator**

We have a question from Anja Soderstrom with Sidoti.

**Anja Marie Theresa Soderstrom**

*Sidoti & Company, LLC*

Congratulations on the good performance this quarter. So a lot of good questions asked already. I just had a few, and pardon me if you addressed this already, Matt, but the R&D increase in the first quarter, what drove that? And how should we think about that in the coming quarters?

**Matthew A. White**

*CFO & Corporate Secretary*

That is the bonus accruals that we talked about previously related to employees in our development space. We are seeing -- we are hiring -- continue to hire in India. So there's -- those folks are getting hired and trained and up to speed. And that's going to cause an increase in that line item. And then we're continuing to work on our software rewrite that we talked about earlier. So that's -- some of that's going to CapEx. But there are portions of those additional costs that we can't capitalize under the accounting rules. So really, those 3 items.

**Anja Marie Theresa Soderstrom**  
*Sidoti & Company, LLC*

Okay. And then on just -- for the full year guidance, 25% to 30%. And you think you're going to hit some new tiers for the license and be at the same level as in the third and fourth quarter, I guess, of last year. You said maybe in 2 of the 3 quarters? Or maybe all 3 of them?

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

Could 2 out of 3. It could be 3 out of 3 is really what we're projecting at.

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

Yes, we don't know yet, but we're pretty -- we're confident on one. We believe -- we probably believe it's going to be 2.

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

Confident for 2.

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

But the 3, we don't know. But it could be

**Anja Marie Theresa Soderstrom**  
*Sidoti & Company, LLC*

Okay. And then -- so I mean, -- then it means that the other segments should be a little bit more muted than at least I had in my model.

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

We expect continued growth in processing and maintenance here. The maintenance kind of follows after the license revenue. So it does -- we have to get that new tier before there's an increase in maintenance. But yes, we continue to expect quarter-over-quarter growth in that process and maintenance line as well.

**Operator**

We have reached the end of our question-and-answer session. I would like to turn the conference back over to management for closing comments.

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

All right. Well, thank you, everyone, for tuning in and listening to us today. We hope we've answered your question as straight known as we can, and we hope -- we're going to continue to kind of doing what we're doing, and we're looking forward to a good year. Thank you, everyone.

**Operator**

Thank you. This concludes today's conference. You may disconnect your lines at this time, and thank you for your participation.