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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 the CoreCard Q4 2021 Earnings Conference Call. [Operator Instructions] Please note, this conference is being recorded. I will now turn the conference over to your host, Matt White, Chief Financial Officer. 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 2020 Form 10-K and subsequent filings.

As we noted in our press release, our strong performance continued in the fourth quarter. Our professional services revenue remained solid. We saw continued growth in processing and maintenance revenue, and we recognized license revenue of \$1.8 million in the fourth quarter of 2021, resulting in full year growth of 34%, the top end of the range we gave on our third quarter call.

Total revenue for the fourth quarter of 2021 was \$13 million, a 36% increase compared to the fourth quarter of 2020. Services revenue grew 48% compared to the same quarter last year and 31% year-over-year, while license revenue, which is hard to predict on a quarterly basis, declined 11% compared to the same quarter last year and grew 63% year-over-year. The components of our revenue for the fourth quarter consisted of professional services revenue of \$6.4 million, processing and maintenance revenue of \$3.9 million, third-party revenue of \$1 million, and as I already highlighted, license revenue of \$1.8 million.

As we said previously, we expect continued growth in our processing and maintenance revenues from a combination of recently added customers who are now live; continued growth from existing customers; and implementations that are currently in progress, including a large conversion for one of our existing customers that we expect to complete in the first quarter of 2022, which will result in significant license revenue and future increases in maintenance revenue.

We signed several new customer contracts in 2021, and we recently opened an office in Bogota, Colombia, where we have begun hiring and training operations and development personnel to enable this new and continued growth. We also continued to hire as fast as possible in India where we added approximately 50 new people in the fourth quarter. We expect to add another 250 to 300 operations and technical personnel in India in 2022.

Hiring and training new personnel continues to be a top priority both to enable continued growth from existing customers and to enable us to take on significant new customers. Professional services revenue continued to be strong in the fourth quarter, and we anticipate similar professional services revenue in the first quarter of 2022, likely in the range of \$6.4 million to \$6.6 million.

Turning to some additional highlights on our income statement for the fourth quarter and full year for 2021. Income from operations was \$3 million for the fourth quarter of 2021 compared to income from operations of \$2.7 million for the same period last year. Our operating margin for the fourth quarter of 2021 was 23% compared to an operating margin of 28% for the same period last year. The year-over-year decline in our operating margin was primarily driven by revenue mix, continuing investments in our processing environment and our new office openings in Dubai and Bogota. Additionally, we are building a new platform that is resulting in higher research and development costs. These investments are a key component to future growth.

Our fiscal 2021 and 2020 tax rate was 23.2%. We expect our ongoing tax rate to be between 23% and 25%. Earnings per diluted share for the quarter was \$0.30 compared to \$0.24 for Q4 2020. Full year 2021 diluted earnings per share was \$1.03 compared to \$0.91 for the full year 2020.

Now turning to our expectations for 2022. We expect top line growth of 20% to 25% for 2022 with a significant amount of license revenue in the first quarter. We expect license revenue in future quarters in 2022. However, it's difficult for us to predict the timing for reasons we've discussed previously. We expect strong growth in processing and maintenance as our customers continue to grow and as we add new customers. We are expecting some slowdown in the growth of professional services due to the strong demand for our services in 2021. However, we expect that revenue stream to remain strong, as I had discussed.

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

James Leland Strange
Chairman, CEO & President

Okay. Thanks, Matt. And I'll add my thanks for you joining us today.

Matt ended his comments with what I think most analysts, shareholders and prospective shareholders want to know, which is, what are you going to do now? I want to know about the future and then you want to drill down. So I'll come back to that, but I want to make a couple of other observations first.

Note that we are now CoreCard, not Intelligent Systems. It's hard to break the habit. When Matt reminded me yesterday

of our call today, he said Intelligent Systems earnings call before catching himself and saying CoreCard earnings call. So it's going to be a habit that we'll have a hard time breaking. Intelligence Systems actually was first incorporated around 1974 or '75. Not by me, by the way. I had no affiliation or knowledge of the company at that time. It actually produced one of the first desktop color computers and along about the same time as Apple. It was called CompuColor.

The founder of the company was big on the future of color computing and later had one of the first color copying machines in another company. That was Charles Muench. He took Intelligent Systems public in 1981 and was one of the earliest technology companies to go public. One of the leading VCs, even today, that invested in the company was Oak Investment Partners out of Greenwich, Connecticut, a partner by the name of Ed Glassmeyer, who's a co-founder of them.

So after 40 years, Intelligent Systems is no more, and we are now CoreCard, CoreCard Corporation. We have a singular focus: to be the most agile and deep financial platform for the processing of money that's available, with a particular focus and expertise in credit.

Let's come back to our results. Note first that our revenues increased 34%. You might ask why did we project around 20% a year ago in this 2020 call? Well, 34% is substantially more than what we thought would be the case this time a year ago, but we did update guidance as we saw it picking up in the year. And I have to say, the answer to that question is, sorry, it's going to sound a little bit like a broken record, but the word is lumpy. Our -- not only our quarter-to-quarter, but sometimes year-to-year, because of the way license revenue hits. I know you've heard that word before, you'll hear it again. But we are on a consistent average growth path of 20% to 25% for a considerable number of past and future years.

You'll recall how we get our revenue based on, I call it, stair step for active account growth for each account that would smooth the revenue recognition, but while smoothing it, it would play havoc with the actual operating accounting for both our customers and ourselves, so we accept the reality of what we should do. So it's stair step active accounts.

Now our net earnings grew 11%. We spent, as Matt said, in 2021, and by the way, doing so in 2022, to continue putting the pieces in place to grow much larger than we are now. This is mainly investments in people, infrastructure and R&D; R&D, both direct, indirect. While we don't concern ourselves with the preciseness of profit, but we're darn sure we're going to make certain we remain nicely profitable unlike many of our peer FinTech competitors.

So summing this part of this question up, we underestimated year-ago revenues, but revised that as the year progressed. We'll do the same revisions this year as it progresses.

Let me make a pretty important prediction for the 2022 year. Again, we're halfway through the first quarter, it is the middle of February. We believe, and I'll say with a 90% probability, that revenues in the first quarter will be the largest of any quarter in 2022. Now understand as we're on the call at this minute, I don't believe we've invoiced, billed or otherwise accounted for even 20% of the revenue we believe we'll end up reporting for the first quarter.

I emphasize this fact to this degree for 2 reasons. One, drilling down to the specifics of where we are will in no way help you predict what the quarter or the year will finally end at -- will finally end up being. And two, what we know is a second or maybe even a third derivative in some instances. So we and you have to rely on the instinct and judgment of management for forecasting the future. And I'll say that until we get much larger, over \$100 million in revenues. And then I guess you have to look at management's track record of what they've said and how results have tracked to what they've said.

So once again, revenues for the first quarter are expected to be larger than any other quarter, and we expect to grow at a 20% to 25% rate for the year. Does this mean that the other quarters are bad? Absolutely not. All the other quarters will show progress in every area other than license revenue in comparison to the first quarter. In some cases, year-over-year, quarter-to-quarter comparisons will be better for the year. Again, back to that lumpy problem. So first quarter license revenue, we believe, will shift and overwhelm the other numbers.

We are creating a profitable, scalable growing business, which I know is less important to a lot of so-called modern companies and investors that hype a narrative. I think the word profit, starting with the capital P, as someone recently

said, is paramount for us, and we're going to stay that course. We do believe that the present value of future cash flows will, in the end, be the winning formula for our shareholders.

I don't really have a lot of narrative to add other than what Matt had. We'll pretty much continue to do the same thing we did last year, which is grow at a reasonable rate. We are up to our eyeballs in terms of work. We need more people in order to take on more work. We're adding more people as quickly as we can. That's all working well. Our training programs are up and running. So we do expect to set ourselves up in 2022 for even a better call one year from now. I'm just going to end at that, Matt, and see if we have any questions from anyone on the line.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mark Palmer with BTIG.

Mark Anthony Palmer

BTIG, LLC, Research Division

Yes. First of all, as you look forward into the coming year, you made it very clear that the first quarter is going to be the strongest, that's going to be a function of license revenue being very strong during that particular quarter. As you look at the pipeline for new business, how should we think about that? And in particular, to what extent are there potential additional licensed customers or additional programs with existing license customers that could contribute in the coming quarters?

James Leland Strange

Chairman, CEO & President

Thank you, Mark. Well, clearly, they're all going to contribute in coming quarters. We do expect new programs. Pipeline, again, is a word that we don't use very often. We have a good number of folks that will be going live this year, but most of them are small. Some of them could end up being very large before the end of the year. We have several large companies that are discussing programs with us. Again, they would be early programs.

We're not talking today about CoreCard directly converting any large programs in this year. So most of what we have would be starting programs that, again, they all feel like they'll have substantial growth for the year. We're going to be more, I guess, reserved on that because some do and some don't, and we'll never know which ones will and which ones will not. But I can assure you we have new programs every quarter that end up going live. We have some large ones that are in the pipeline, some contracted, some in discussions for contracting, but no big conversions for this year. So most of their big numbers are actually to come next year.

Matthew A. White

CFO & Corporate Secretary

And I would just add, to answer the other part of your question, Mark, we don't expect any of those customers to be license customers at this point, but that's always an option.

James Leland Strange

Chairman, CEO & President

Yes, that's right.

Matthew A. White

CFO & Corporate Secretary

For someone big.

James Leland Strange
Chairman, CEO & President

We expect them to be processing customers at this point in time.

Mark Anthony Palmer
BTIG, LLC, Research Division

Right. And what is your outlook with regard to your largest customer for 2022? From what they are telling you, from what they have said, how do you view the prospects for additional revenue from them, especially insofar as they've made it clear that they want to add additional customers to their processing platform?

James Leland Strange
Chairman, CEO & President

Well, I think you've just stated what we know. They don't really tell us much. We have to -- as I said earlier in my comments, we have to use our judgment based on what we hear and see. And we expect them to continue to grow. I mean they expect they're going to grow. We expect them to continue to grow. We certainly hope to be a part of that.

Mark Anthony Palmer
BTIG, LLC, Research Division

And one final question, and then I'll get back in the queue. With regard to the R&D spend on the new platform that CoreCard is building, what is the timing in terms of the go-live for that platform? And what are the benefits that you anticipate you will receive from going live?

James Leland Strange
Chairman, CEO & President

Well, it's another 3 years out from going live -- at least 3 years now from going live on the full platform and it may be 4. But we take parts of what we're doing in that process and add it to what we have now. And remember, all of this is really long-lived. We will not be getting off -- we nor our licensees are likely to be getting off of our current platform for over 10 years. We'll simply have another platform that will be even more agile than our current platform, and we think it will be less costly to operate and be more scalable. I mean it's all of these little things that you've learned in doing this before that you're going to try to do in another time to continue to advance technology.

Operator

[Operator Instructions] Our next question comes from the line of Anja Soderstrom with Sidoti.

Anja Marie Theresa Soderstrom
Sidoti & Company, LLC

Good questions asked already. I'm just curious for the guidance range for 2022. What needs to happen for you to be at the higher end of that?

Matthew A. White
CFO & Corporate Secretary

Well, it's not that -- some of our customers may grow faster than anticipated. Some of those new customers, as Leland mentioned on his comments, it's kind of the second order prediction where we're trying to predict what our customers are going to do. So if they grow a little faster than we think, then that will put us at the higher end. And if they grow slower, then that puts us at probably the lower end.

James Leland Strange
Chairman, CEO & President

Last year, we were surprised with a little more growth. And since we don't have insight on how much marketing that any

one customer is going to spend on growing their program, we're going to assume a pretty steady state when we say 20% to 25%. If someone decide to pull back on our program, it's going to be on the low end. If somebody decided -- or somebody or several decide to put more dollars into marketing, it could be on the high end. It could be higher and it can be lower. We're trying to give you our best estimates, not trying to -- we're trying to neither sandbag it nor trying to be -- by being ultra conservative nor making hope as a part of our prediction. We're trying to look at what we see, but none of it is specifically contracted, but look at what we see and make the best projection we can on the numbers.

Matthew A. White

CFO & Corporate Secretary

Another big factor is timing of implementations where typically, we're able to get our platform ready very quickly, as quickly as 30 days, but then there's other players involved that tend to drag out the implementation process. So that can be a factor as well.

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Okay. Appreciate the additional color. And then I'm just curious, you were talking about you're hiring plans for India and gave us some numbers around that. But how -- and Colombia is fairly new for you. But what's your goal there? And how many headcount do you think you're going to have there at the end of the year and how has that been an initial read on the ability to hire talent there?

James Leland Strange

Chairman, CEO & President

Well, it's a little -- still a little early. We're obviously hiring there, and I don't think -- we're not going to put a specific goal out of the plate yet until we see how that works out and what kind of talent we get. So far, we're pleased. It frankly had been a little slower than I had anticipated or hoped. But it's -- we're getting a good staff there. And I want to give it a couple of months to see how it works out to decide whether we want to speed it up. I mean we've got pretty ambitious plans now, but we may speed it up. It's -- there are a couple of benefits there, not just of staff there. We also have a good number of our India employees that will be traveling there. I think they're either 10 or 12 that are there right now that helps us with time zone coverage for particularly our largest customer. It also helps us with training there. So I would say it's a little early. By our next call, we'll have a whole lot more definitive data to be able to tell you what our projections are.

Operator

And we have reached the end of the question-and-answer session. And I'll now turn the call over to Chairman and CEO, Leland Strange, for our closing remarks.

James Leland Strange

Chairman, CEO & President

Okay. Well, thank you for taking the time to be on the CoreCard earnings call, and we look forward to another conversation about 3 months from now. Thank you, everyone.

Operator: And this concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.