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<<Analyst, KeyBanc Capital Markets>>

Great, thanks everyone for joining. We're excited to have Leland and Matt here from CoreCard. Before we jump into the Q&A, why don't we just start with a quick introduction to the both of you, as well as CoreCard, just kind of let us know a little bit about the history of the company and where you're positioned?

<<Leland Strange, President and Chief Executive Officer>>

Sure, well, I'm CEO of CoreCard, we're actually a successor to the company called Intelligent Systems, we simply changed our name. Historically, Intelligent Systems was a public venture capital type company, and CoreCard was one of our investments. Back a few years ago, we decided that we were going to put all of our marbles in this one basket and become CoreCard. So we're now CoreCard, and we're going to talk more about the business. I'll let Matt introduce himself.

<<Matt White, Chief Financial Officer>>

Yes, Matt White, I'm the CFO, I've been in the role for about four years now.

<<Analyst, KeyBanc Capital Markets>>

Awesome. Well, let's maybe just to help position the company start with a view of the industry landscape. I think a lot of us are familiar with the general landscape of payments, but maybe talk about the issuing side and where you fit in?

<<Matt White, Chief Financial Officer>>

Yes, often when people talk about payments, they kind of throw that out as if it should be one thing, but the reality is the big divide are the payments issuers versus acquirers. And there are hundreds of acquirers out there. There's hundreds of probably public companies around the world who are acquirers and that's the payment space, clearly the big part of the payment space where in fact, you use your credit card at a restaurant or online, it goes to an acquirer. So the acquirer is the big side of the payments space. And that's also what's usually talked about by the legacy companies, when they held their conference calls and do their talks, they're usually talking about the acquiring space, we're the issuing space.

There's just a handful of companies in the issuing space, and a thought I had recently was that when you think about all the new companies that have been formed around technology and finance in the last five years, but let's go back 20 years, there's probably

... I cannot think of one name of a company that's been formed in the last 20 years, that specialized in revolving credit issuing. And that by itself, I think should tell you a lot about the space, meaning that it's hard, it's complex, it's difficult to get into, whereas acquiring is very easy to get into. There's simply nobody out there that's new. And we're not new either. By the way, we've been known for a long time, but we're one of the smaller ones, and we're growing. Our industry mainly is dominated by those who are in the other legacy companies that have been around for 30 and 40 years.

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And let's maybe talk a little bit about what you all see as the addressable opportunity and the issuing side of the business value chain. And then if you could kind of segment credit versus debit and talk a little bit why credit is so much more complex?

<<Leland Strange, President and Chief Executive Officer>>

Yes, it's just, it's not in debit, I think credit is probably exponentially 20 times, 30 times more difficult than debit. When you go to the issuing space, you really can talk about three things, you talk about stored value, that's a prepaid card, it can have all kinds of names, it can be a gift card, it can be all sorts of things, but it means the money's in the bank somewhere. And we're simply using a card to allocate the money in the bank in some way.

Of course, a debit card, we all know that's just hitting another, again, money that's in the bank. Credit is unique, because you're talking about something where there is no money in the bank. That means your ledger, which is sort of the holy grail posting of the ledger is really much more important than just keeping money going in and out, you're keeping up with interest charges, you're keeping up with different kind of returns, and then how that applies to interest charges, you're keeping up with a whole lot more things. Again our software, there's 1,200 parameters that have to be set for a program. That means there's 1,200 choices. Actually, there's more than 1,200 choices.

So you hit the 1,200 but of the 1,200 any one of them might have not just yes or no, they may have 30 choices. And then you have to determine whether one of those choices might interrelate with another choice that causes a problem. So your regulatory issues dealing with both OCC as well as consumer protection, Consumer Financial Protection Bureau are much higher in credit than they are with debit or with stored value.

The interest complexity and the regulatory make it just totally different. It is easy, it's relatively easy to build a software platform that can process stored value, or that can process debit. I mean debit is probably the simplest of all. I think the big difference that we see and the CoreCard takes advantage of is that credit is where people make money, debit and stored value, you pay money to somebody to keep up with that, credit you've got interest being earned. So therefore, you have a source of funds to pay for the complexity of credit, as opposed to just kind of keeping up with a very simple ledger.

<<Matt White, Chief Financial Officer>>

I was just going to, if you're finished with that answer, I was going to take the one about the addressable market, we get that question a lot. It really isn't that important to us right now at our current size, but we did put a number on it several years ago at \$7 billion. And that's probably a pretty low number, pretty low estimate, we just took the publicly available information from the different big competitors that we have and added those up to just their issuing business and came up with that number.

<<Analyst, KeyBanc Capital Markets>>

Sure. And so obviously, a very large number, a lot of opportunity in a given year, when you think about existing portfolios, evaluating new issuer processors versus new portfolios coming, say, from technology companies, whatever it might be, how many at-bats are there in a given year for CoreCard to have?

<<Leland Strange, President and Chief Executive Officer>>

Well, the idea that perhaps is important, they pose a good historical way that people use it, but I think it's not appropriate in terms of measuring what's happening today. Most, I must say, all of our business there may be an exception, but all of our business today came from not an RFQ, which is what price do you want to do it? It came from just a conversation, where they talk to us, they talk to someone else, maybe one or two other people. And they may have sent a little spreadsheet out just saying, can you do this or that.

And basically, they chose CoreCard. So it's not all formal RFQ. Now the big opportunities, we will obviously have a formal RFQ attached to it. I think I know what you're getting to, and it's hard to answer because we don't want all the business that is out there. We turned down a lot of business. I think the distinction here we have no salespeople. Our revenues are at around \$65 million this year, right. We have zero salespeople, we do practically no marketing.

So that means that for a lot of folks that maybe give us a call or send us an email, we end up saying we're not appropriate for you. Because we have to strategize on who we take. So we're not looking how many, what percentage of the at-bats that we get hits, we look at what percentage that we get that we want, which is much better than 50%, it's very high. And to try to expand a little more, if someone comes in to us and says, look, our key selection process is going to be price, we immediately say, go somewhere else.

We sell a premium product at a premium price. We're not interested in being the lowest price product, because it means we can't provide the service that we tell people we provide. So as I said, we get a high percentage of those who contact us.

And by way, we have no marketing or sales, it is because they've been coming. I mean, they contact us we get a high percentage of those that we decide we want to engage with.

<<Analyst, KeyBanc Capital Markets>>

Okay, and so let's maybe talk about spending on financial services infrastructure. If you think about maybe three categories FIIs, retailers and technology companies, what are the trends you've seen around spending from third-party financial infrastructure vendors like yourself?

<<Leland Strange, President and Chief Executive Officer>>

Well, I think a lot of folks, of course, go to the cloud, they call that not spending, but there's a whole lot of spending there. In fact, that may be higher than if you do on prem. I would say the spending is probably flat for the last few years in all categories. They're pretty much flat.

<<Analyst, KeyBanc Capital Markets>>

Okay, sure. And for the deals where you are involved in RFP, RFQ were you typically seeing against you?

<<Leland Strange, President and Chief Executive Officer>>

Well, okay, who do we see against us? You've got your legacy players who have been doing this for 30 to 40 years. But we see only a few of those and the candidate we see are is people come into it, look, we're looking for something different. We're looking for something more flexible. Our contract ends in three years. You think about that, it is not somebody who's ready to buy something tomorrow, they're looking way down the road. Now, we have to think about the person that's coming in and telling us that contract ends in three years, is that person going to be here three years from now?

I mean, there's all kinds of things you have to think about here as opposed to just oh yes, let's go out. So we were very selective in terms of, well, who's talking to you? Who's asking? And what are the interests? What is the interest and every FII says, we want to be innovative. We want to be leading, we want people to recognize us as being a big innovator. The truth is, not many of them really do. And they want to say it, but not many of them want to spend the money to do it.

So again, we have to look at it and say, what do we really think? So, we talked to them and our main competition, let's divide it two ways, folks who already have a large business with one of the big legacy players. The competition for that is, is the current processor. And it's usually not another big legacy player, they're going to, in most cases, they're going to take a lot of time, and they're going to do a lot of RFPs and then they're going to end up staying with their own processor, because it's too risky to make a change, I would say too costly. But people misunderstand that often, when I say too costly, I don't mean in terms of the cost of what they pay, I mean, it's cost of the risk of losing

customers, when they make a change, the most expensive part of running a program really is getting the customer and keeping the customer.

So you lose a credit card customer, that's a very expensive loss over time. So it's highly risky. So only those who truly want to be innovative, who truly want to be agile, who truly want to have the latest software are willing to take that risk. So we don't compete within the new players for the old legacy kind of business, it's really their current provider, and we're going to get some of that, we're talking to them, we'll get it.

The other side of the business are the newer players who are just getting into the credit card business, and the competition, there would be one public company, well, the legacy companies obviously, but they're not really very competitive in that area. Because the newer guys, they want to be agile, they want to see things, they want to move fast. So your competition there in terms of private companies, with Galileo and ITC and neither of those do a whole lot of credit. But it's a competition and then Marqeta, that is a public company.

Now, remember, we specialize in revolving credit, we do debit, we do stored value, we can do all that. That's easy. But we don't go after that business, we would never have, we would never, if someone came and said, all I want to do is have to do is have a debit card, we would probably say go to Marqeta and try to get at cheap price, go to Marqeta. If they want to do a revolving credit card we'd be all over it, if we think they're going to build it into their service.

So Marqeta would be one of the newer guys, but they are really just getting into credit. And it takes a long time to get credit. So you would find that depending on how sophisticated the buyer is, that would tell you whether there is good prospect for us or not, if someone has never been in the credit business, and they're not a very sophisticated buyer, we would probably again decide that's not strategic for us. And I keep saying strategic.

And I think I'm sort of you haven't asked the question directly, but I'm sort of ignoring the big question and our big customer is Goldman Sachs. And they represent 70% of our business, Goldman Sachs has licensed our software to process first the Apple Card, which is the most successful new credit card product in history. And I would say it will never be beat. I mean, literally, they ended up with more credit cards in the first year, or the first two years, than anybody will ever do I think in the future.

So that'll be there and then General Motors is added. I mean, then they added the General Motors card this past year, and that was a big conversion. So that's all from a legacy system on to our system, so we can do the conversions. And General -- Goldman really is then kind of a marketing partner for us as they add accounts we grow. But that's licensing our system. On the other side, we have our own processing environment where we also do the same thing and use the same software. So that's really where we're competing. Obviously we spent a lot of time on the Goldman.

It's very important to us. The Goldman President in his conference call, earnings call last week, I believe he was talking to people who asked him on the conference call, are you going to be adding new accounts in the next year?

He said, well, we're not sure the next year but we certainly will. And he used an interesting he said we have, because of our technology and our history and our relationships, we have more partnership opportunities that we can take on. And I thought that was interesting, because that's kind of what I was saying, we have more opportunities than we can take on for the same reasons.

<<Analyst, KeyBanc Capital Markets>>

That's helpful. And so maybe talk about that relationship a little bit more. And I mean, when you see a revenue concentration like that the immediate reaction is risk right around that gateway. And there's another public issue processor that has significant concentration, maybe just talking about the relationship with Goldman and the confidence in that.

<<Leland Strange, President and Chief Executive Officer>>

Exactly, well, let's just compare, we talked with the other company, and you may not say Marqeta has got the risk with Square which represents a large proportion of their business. And I would say it this way, that's not very sticky. And that doesn't mean it's going to go away, I would probably bet it's not going to go away, I'm going to bet that they are going to keep that for a long time, I see no reason why they shouldn't, on the other hand it is really easy to go out and do comparison shopping for that because it's not a big commercial process.

You take our relationship with our customer, I don't know who they would go to comparison shop with. Now, that's not being arrogant. Because I mean, once you become arrogant, you lose your business. So in fact, we work our tails off to make sure that we are good, and that we're a good partner with Goldman. But the fact is, it's very hard and very time consuming to move revolving credit accounts, versus moving a debit or a prepaid card.

But the concentration question, I guess I missed that a little bit. Yes, there are some folks who say, well, we'd be more, you'd be more attractive if they only represent 30% of your business. And I end up saying, I hope they always represent a big chunk of my business, I want to grow that business, there's nothing wrong with growing that business. I want to grow my other business too, the other side of it, Matt, talk about, what we're doing on the other side, percentage wise?

<<Matt White, Chief Financial Officer>>

Well, in the first quarter, the Goldman business grew faster than other customers. But other customers excluding Goldman grew 49%. In the second quarter, that was more like

30%. So growing a little bit faster than Goldman in the second quarter. So we're still, we're seeing certainly signups from new customers on a regular basis. We added, we're adding several going live or several new customers every quarter and signing new contracts with new customers on a regular basis. And we talked about on our most recent earnings call, the relationship that we're working on with American Express, where we have an existing customer that wants to issue a co-branded card with them. So we're working on a direct connection with American Express.

So there's a lot of different things that are going on outside that relationship, but as Leland said, it remains our main focus. We don't want to do anything to jeopardize that relationship. But we are able to continue to grow outside of that as well.

<<Leland Strange, President and Chief Executive Officer>>

And I would add to that, this is a little different in terms of what you'll hear from a CEO of a growing company, that we do not intend to grow faster than 20% to 25% per year, because we think it's risky. And we're not going to risk the enterprise by throwing everything out there and trying to grow faster than you should because you're in the financial business. And if you have a misstep there, it'll take you three years to recover. So measuring the risk of trying to get that extra dollar or extra percentage of growth versus what could happen if you don't, it's just not worth it to us.

So we simply say upfront, we are expecting to grow in the 25% range as we've done pretty steadily over the last four years. And we're not going to grow 50%. We don't, I hate, I don't like so we don't want to I guess I should say I would want to, I'd want to if it didn't risk the enterprise. So I don't want to because I believe it will risk enterprise and to grow in the – to get in the space, you have to have a well-trained employee base and we're growing that as fast as we can. But we don't consider well trained until somebody has been with us for three years. I can't charge a customer the kind of rates we charge for someone that we come in and throw out on after six months. So it's a long training cycle to be really good in the revolving credit space.

<<Analyst, KeyBanc Capital Markets>>

Yes, very clear. I will pause for a second to see if there are any questions.

<<Analyst>>

I just wanted to ask maybe with some of the younger companies. You mentioned one, certainly. There are others like Stripe. They're also getting into an issue business that I think all of them generally emphasize their software development kit is feature rich, it's well documented, if you're going to have this company or maybe a Neobank, pretty easy to get up and kind of servicing like broadly that that's part of the value prop. So I was looking at the Apple product, it's obviously pretty sophisticated. Offering this card, how much of the recompensate is that for you? Is that something that helps you with Apple? Or is that more obvious, just curious?

<<Leland Strange, President and Chief Executive Officer>>

Well, just like anybody, everything we do has to be API based. That doesn't mean we go promote and, and try to make a big deal of it. But everything we do, all of it is accessed through API's. And we have the SDK, we have all that, but the difference between all of them again, they're accessing an account that has money in it. So there is no risk, as long as you can take care of the fraud, right at that point-in-sale.

For ours, you had to have, one step back, you have to have a bank, that is saying, we're going to take the credit risk of the customer, there is no credit risk on any of the other things you're talking about, that just separates it, that puts a big gulf between what you're doing in terms of somebody taking the credit risk, that means a whole lot more things are considered and checked and fraud; it's much more important than it is when you're talking about money that's in the bank.

So I mean, we have all that, we would say that we have everybody wants to throw modern in their boiler plate now. So we'll say we have the most modern technology that's out there for revolving credit. And that's true because we were written for revolving credit, there's a big difference between writing your software for prepaid. And then saying, I'm going to move it to credit, you don't have all of that other stuff you need with credit. If you say that I wrote it for credit and now I want to move to prepaid, you have it all. It's all still, it's all there, all you do is change a plus sign to a minus sign.

Because with credit, there's negatives with debit, debit to the other, it's plus what you've got in the bank. So it's just -- it's just a night and day between how you approach it. But I know there's a lot said about your SDK, whether it's API, but we have all that everything, everything is accessed if you have an Apple, anybody have an Apple hard, if you don't have an Apple or you ought to give just for the experience.

You don't have to -- you don't have to use it. But it's you got your Apple, you saw API again, you're going to get approved, or rejected? No, let me say just a bit, I'm going to do something else with it first. I'm going to do this first, that's a different card is sleek, to then kick it off, again, as we have heard, and it's also important because Matt was telling me today, so I had a friend who said, I'm going to take your call, I'm going to take a picture of it.

And he said, okay, you'll see there's no number on it. There's practically nothing on it, you take a picture on it, it doesn't matter you can't use it. It's very different. But unless you have, unless you access their mobile application, you have no idea how advanced this process is. And it's all API driven, obviously, but you use your card and within five seconds, it tells you, it shows you on a map exactly where you used your card on your phone.

It's just got tons of benefits to it. And again, it's advanced. And you can imagine Apple always wants the latest, they always want the best. And I tell folks that we're dealing with two companies, Goldman and Apple who both highly, highly protect the reputation.

The last thing they want is to take a risk on reputation. They'll give up money, but they don't want to take a risk of reputations. The other side is that they are very good on technology. They've got really short people in technology. And they chose this little company Norcross, Georgia to put a program on that was going to have high visibility, the Presidents of both companies have had to talk about in earnings call. So it's rather me saying let me tell you how good my technology is. I ended up saying, look who chose it. Forget, forget me. I mean, I'm pushing it, look who chose it.

So, to me that's the difference in saying what we have for Stripe and some other guys, they are all very good at what they do. I'm just saying they're not doing revolving credit. And ultimately, that's where you make money. Ultimately, that's where people want after they get debit cards, they do all the other, they want to now finally get a credit card. And then it's not really just a matter of the processor, the bigger part of it is the business side of the risk, handling the portfolio.

<<Analyst, KeyBanc Capital Markets>>

Yes, we're a little over time. But I think we can stretch it a couple of minutes. Matt, why don't we just hit on the model a little bit? Talk about top line growth, just contribution from everything about existing customer growth versus new customers, mix of debit versus credit, and then maybe touch on margins, gross margins, some of the puts and takes there to finish?

<<Matt White, Chief Financial Officer>>

Sure, yes, yes most of the growth is from, it's a combination of our customers growing, existing customers growing and adding new customers. And, of course, Goldman, some of that through Goldman, we had over \$12 million of licensed revenue in Q1, \$1.8 million in Q2, and that Q1 revenue was mostly from the GM conversion that we did. So we'll continue to grow through them. And we'll continue to add customers and our existing customers will continue to grow. We talked a little bit about on the last call, we don't really lose a lot of customers, they stick with us.

So, one of the last customers we lost was Wirecard. So that's just a crazy example of why we would lose a customer. They were a big, they had a big fraud and when it went out of business, so our customers stick with us. And so as we continue to add them, we think they'll stick with us, and we will continue to contribute to growth. On the margins, we have, we're nicely profitable, we expect to continue to grow, continue to stay profitable.

We're not that focused on the margins right now. We opened an office in Dubai in 2020, and an office in Colombia in 2021. So we continue to invest for future growth. And so for us, the margins are a little bit down from what they were maybe three or four years ago,

but that's mostly because we know that we need to continue to hire new people to invest in infrastructure. Because you need to convince a big customer to come choose CoreCard, especially for a conversion, they need to know that there's training resources available to do that.

So we kind of have to invest upfront for some of that. So, ultimately, we think that the margins will be very healthy, EBITDA margins in the high 30s. Maybe low 40s is kind of what our bigger competitors, on the issuing -- in their issuing business have seen historically, as we think that's certainly achievable. But it's still several years before we'll be able to make those comparisons.

<<Analyst, KeyBanc Capital Markets>>

Sure. Well said, well I think we're up on time. So Leland and Matt, thank you so much for joining us and thanks everyone for listening. Thank you.

<<Leland Strange, President and Chief Executive Officer>>

Thank you.