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Earnings Call

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Presentation

Operator

Welcome to CPI Card Group's Fourth Quarter 2023 Earnings Call. My name is Audra, and I will be your operator today. If you are viewing on the webcast, you may advance the slides forward by pressing the arrow buttons. [Operator Instructions] Now I would like to turn the call over to Mike Salop. CPI's Head of Investor Relations, please go ahead.

Michael A. Salop
Head of Investor Relations

Thanks, operator, and good morning, everyone. Welcome to the CPI Card Group Fourth Quarter 2023 Earnings Webcast and Conference Call. Today's date is March 7, 2024. And on the call today from CPI Card Group are John Lowe, President and Chief Executive Officer; and Jeff Hochstadt, Chief Financial Officer.

Before we begin, I'd like to remind everyone that this call may contain forward-looking statements as they are defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. For a discussion of such risks and uncertainties, please see CPI Card Group's most recent filings with the SEC.

All forward-looking statements made today reflect our current expectations only, and we undertake no obligation to update any statements to reflect the events that occur after this call. Also, during the course of today's call, the company will be discussing one or more non-GAAP financial measures, including, but not limited to, EBITDA, adjusted EBITDA, adjusted EBITDA margin, net leverage ratio and free cash flow. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures are included in the press release and slide presentation we issued this morning.

Copies of today's press release as well as the presentation that accompanies this conference call are accessible on CPI's Investor Relations website, investor.cpicardgroup.com. In addition, CPI's Form 10-K for the year ended December 31, 2023, will be available on CPI's Investor Relations website.

On today's call, our growth rates refer to comparisons with the prior year period, unless otherwise noted. And now I'd like to turn the call over to President and Chief Executive Officer, John Lowe.

John D. Lowe
President, CEO & Director

Thanks, Mike, and good morning, everyone. For today's call, I will give an overview and discuss our strategic priorities. Jeff will go into more detail on our 2023 results and 2024 financial outlook, and then we will open the call for questions.

Let's start on Slide 4. As most of you are aware, I was named President and CEO of CPI Card Group in January, taking over from Scott Scheirman, who announced his plans to retire mid last year. I would like to take a moment to thank Scott. Under his leadership, our team delivered a remarkable turnaround over the last 6 years and established a strong foundation that we can build from as we begin the next phase of the company's growth. CPI has a strong culture and values that have helped to establish us as a trusted leader in the U.S. payment space, and we have a great leadership team at place today. This team combines both experienced CPI leaders that have helped drive our success over the last several years as well as some relatively newer hires to bring in additional outside expertise.

Among the experienced leaders we have promoted Peggy O'Leary to Senior Vice President, Prepaid Solutions and Chief Development and Digital Officer. Peggy has been leading our prepaid business since 2022, and has been instrumental in driving our growth strategy in various areas of the business since joining CPI in 2015. Peggy will be supported in business development by Rob Dixon who is our Vice President of Business Development and Digital Solutions.

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Rob has been leading our product, growth and innovation strategy for instant issuance, personalization and digital solutions. And he and his team have been integral in expanding our product and solution sets, including our digital connections and solutions. Last year, we also brought on two executive leaders from outside the company and newly created senior roles that report directly to me to further enhance our sales and operations activities. Tony Thompson joined us from R.R. Donnelley and is now our Senior Vice President of Debit and Credit Operations. Tony leads the teams responsible for ensuring the best quality for our customers for secure card, personalization, instant issuance and print on demand.

J.D. Porter, who came to us from Fiserv, is now our Chief Commercial Officer. J.D. is responsible for all customer-facing activities for our Debit and Credit segment and is tasked with driving market share gains and providing the best customer service for our thousands of customers. CPI's newly structured leadership team aligns with our strategy of building from our current foundation while expanding long-term opportunities and diversifying the business, which I will talk more about in a few minutes.

First, though, I would like to address our financial results and initial outlook for 2024. Certainly, 2023 was a challenging year. As we've discussed the last few quarters, in general, our customers were very cautious with their spending last year. Economic uncertainties, banking industry turmoil and inventory rationalization after our customers purchased large quantities amidst supply chain concerns in 2022, all contributed to the cautionary spending in 2023.

If you recall, 2022 sales were at a record level for CPI and reflected a 27% increase from prior year and a 32% increase in the Debit and Credit business. We anticipate the customer inventory rebalancing will continue into 2024, but believe the market will gradually improve over the course of the year. For the full year, we expect to return to positive sales growth in 2024 with our initial outlook projecting slight increases for both net sales and adjusted EBITDA.

We expect sales to be down for the first half of the year. with growth anticipated in the second half. Our sales outlook is based on discussions with customers, opportunities we are seeing in the marketplace, industry projections and analysis and anticipated benefits from sales initiatives that we initiated in 2023. We are also encouraged by the outlooks of many of the large banks who generally are predicting a soft landing for the U.S. economy.

We expect 2024 adjusted EBITDA to slightly increase. Growth will be impacted by investments to support our long-term strategy of growing and diversifying the business and comparisons with lower short-term employee incentive compensation in 2023. Longer term, we believe we can drive further operating leverage from sales growth and operating efficiencies. Looking back to 2023. Although our sales results were disappointing, we did take important strides that will help lay the groundwork for the future. We won additional business with both new and existing customers. We expanded our health savings account business and opportunity.

We developed and introduced new metal card offerings. We introduced eco-focused solutions in the prepaid space. We expanded our Card@Once instant issuance installations to more than 15,000 locations, and we accelerated plans to diversify the business by launching digital push provisioning capabilities and exploring an expansion of our instant issuance solution beyond financial institutions.

In addition, despite the sales and net income decline in 2023, we were able to more than double our free cash flow to nearly $28 million, thanks to improvements in working capital and tight management of capital spending. We also initiated our share repurchase program in the fourth quarter and made good progress executing against the $20 million authorization in the first couple of months of 2024.

We'll go into more detail on 2023 results and our 2024 outlook in a few minutes. But first, let's turn to our strategy review on Slide 5. My goal is to carry forward and enhance the strategies that have made us successful with our current portfolio, while also expanding our addressable market over the long term by adding adjacent product and service offerings, including more digital solutions for our extensive customer base of thousands of financial institutions. My leadership team and I want to continue with the key strategic priorities that have successfully driven growth and market share gains in our portfolio of secure cards, card personalization services, Instant Issuance Solutions, Print on Demand and prepaid solutions.

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Specifically, we will continue to differentiate ourselves in the market by prioritizing a deep customer focus, market-leading quality payment solutions and customer service, continuous innovation and a market competitive business model. These priorities have helped us become a leader in areas such as eco- focused payment cards, our Software-as-a-Service-based Instant Issuance Solutions and tamper-evident prepaid packaging solutions. Our focus on customer service, quality and innovation gives us a strong value proposition in the market, and we have consequently established strong, long-lasting customer relationships. We remain committed to winning business and gaining market share with our existing portfolio. But we also believe there are opportunities to expand in some new adjacent areas.

Scott and I, along with our teams, spent years building the foundation we have today, and CPI is now well positioned to invest in additional growth opportunities, which will also provide further diversification to our portfolio. We serve a customer base of thousands of financial institutions, most of which are small to medium issuers who rely on third parties for many of their payment services. We believe we can provide added value to these customers through additional solutions and service offerings to help their customers with their payment needs. We are uniquely positioned for this primarily due to our technology connections with the bank platform providers, also known as Cores and processors, that support the backbone of most banks in the U.S. payment system.

We realized years ago when we were trying to penetrate the market with our Instant Issuance Solution that we needed to make the solution easily adoptable plug-and-play, if you will, for our customers. This prompted us to begin deeper technology integrations with the bank platforms and processors that we and our customers connect with every day. As we have grown our share in the U.S. market, we have spent many years developing and investing in these technology integrations, which have allowed us to expand our reach in offering personalization services and our Card@Once Software-as-a-Service based instant issuance digital solution to small- and medium-sized financial institutions across the country.

Our Card@Once solution, for example, upgrades on a proprietary platform that allows us to provide a plug-and-play instant card issuance solution through these integrations, the value proposition to our customers has propelled the growth of this solution to more than 15,000 branches across more than 2,000 financial institutions today. We are now investing in and leveraging these integrations we have built to offer Digital Push Provisioning, a service that complements the physical card personalization solutions we provide to customers.

With Push Provisioning, we can additionally offer our customers the ability to let their customers seamlessly push their card credentials onto a digital wallet, simply by pressing a button on their mobile banking app. Our vision is to provide push provisioning services as a digital complement to each physical card we help our customers issue, which assists them in moving their cards to top of wallet status both physically and digitally.

This is just 1 example of value-added services that will benefit our small- and medium-sized customers. Similar to previous initiatives, such as eco-focused card rollouts, we expect adoption among our customers to ramp slowly, but grow into a meaningful business over time. We believe our widespread technology integrations along with the relationships and trust we have established with providers, both of which took years to build. Our meaningful point of differentiation that allows us to expand beyond our traditional offerings and offer additional easily adoptable solutions for our customers.

We also have opportunities to continue taking existing products and solutions to new types of customers. such as our expansion into health savings account payment cards and potentially selling instant issuance to customers outside of the traditional bank branch and credit union space. This could include any business that may have a need to issue payment cards to consumers at their locations. As we refine our plans and strategies and roll out new solution offerings, we will give you more details. But I want to emphasize, we remain very confident in the long-term growth of the markets where we currently participate, and we'll continue to invest in advancing these long-term growth areas.

A big driver of our market growth is cards in circulation. If I take you to Slide 6, these are updated 3-year charts on the growth of U.S. payment cards. The latest figures from Visa and Mastercard show cards in circulation in the U.S. increased at a 10% CAGR for the 3 years ending September 30 and were up 8% compared to the prior year quarter.

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Additionally, the trends towards eco-focused and higher-priced contactless cards remain strong. In 2024, one of our priorities will be to increase penetration of eco-focused cards to our thousands of small to medium customers that these cards have been primarily purchased by large issuers to date, which is similar to what we have experienced with the contactless transition. Mandates from card networks and initiatives from large banks to move to eco-focused cards over the next few years, should further aid the rate of penetration.

Contactless adoption also continues to advance. And Visa noted in its latest earnings call that it estimates tap-to-pay usage in the U.S. reached 45% for in-person transactions last year. We estimate the contactless penetration of cards in circulation in the U.S. was between 60% and 70% at year-end, up from 50% to 60% at the end of 2022.

In short, we believe the U.S. payment card market is very healthy with positive secular trends still intact. The market also remains recurring in nature with a significant majority of payment card issuance relating to existing card replacement. Although customers increased inventory levels in 2022 and subsequently have been working them down, resulting in a sales decline in 2023.

Our sales increased at a 9% compound annual growth rate over the past 2 years with our Debit and Credit segment sales posting a 10% compound growth rate. Once we get through the remaining stages of the inventory rebalancing, we believe the market will return to more normalized patterns. In addition to sales opportunities, another emphasis for us in our long-term strategy is to invest in technology and processes to further enhance and improve the customer journey and experience, drive growth and increase operating efficiencies.

This includes investment in a new state-of-the-art secure card production facility in Indiana. The lease on our current space in Indiana expires in 2026, and we are beginning a multiyear build-out and transition to a new facility, which will provide more capabilities, capacity and efficiencies.

And in summary, our team is excited about the opportunities to grow in the future, both from winning business with our existing portfolio and what we believe will be a growing market and by adding new addressable markets by expanding into adjacent offerings.

I would now like to turn the call over to Jeff to go through our 2023 financial results and 2024 outlook in more detail. Jeff?

Jeff Hochstadt*CFO, CPI Card Group*

Thanks, John, and good morning, everyone. I will begin my overview on Slide 8. The fourth quarter environment was generally what we expected as customers remained cautious with spending and continued to work down their inventory levels. The sales decline had a negative effect on margins as we lost operating leverage, although we continued to manage discretionary spending tightly.

Overall, fourth quarter net sales declined 19%. Net income decreased 78%, and adjusted EBITDA declined 27% compared to the prior year period. For the full year, net sales decreased 7%, net income declined 34% and adjusted EBITDA fell 8% as reductions in operating expenses helped to offset the impacts of the sales and gross margin decline.

Net income for both the quarter and the year was negatively impacted by accruals for the previously announced executive retention award as well as higher tax rates. Despite the reduction in net income, we were able to significantly increase our free cash flow for the year, more than doubling last year's level due to improvements in working capital and tight management of capital spending.

We were also able to maintain a relatively consistent net leverage ratio ending the year at 3.1x. Turning to the detailed fourth quarter results on Slide 9. The 19% sales decline was comprised of a 22% decrease in our debit and credit segment and a 5% decline in prepaid. Within debit and credit, the primary driver of this decline was reduced card sales. We saw this decline across contactless, contact and non-EMV cards. Sales of eco-focused cards declined compared to some very large orders in the prior year period but did increase relative to the third quarter as we filled some good-sized orders in the fourth

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quarter. Card@Once's instant issuance sales increased in the fourth quarter compared to prior year, driven by growth in both solution sales and transaction processing fees, while other personalization services declined. The sales declines for both the debit and credit and prepaid segments also reflect very challenging comparisons with the 2022 fourth quarter when Debit and Credit sales increased 35% and prepaid grew 39%.

Gross profit in the 2023 fourth quarter declined 25% from prior year and the gross profit margin decreased from 37.6% to 34.4%, although it did increase slightly from the third quarter level. Compared to the prior year period, the lower sales levels negatively affected gross margin due to the impact on fixed costs within cost of sales and margin was also impacted by higher material costs, primarily chips, partially offset by labor efficiencies in our prepaid segment.

SG&A expenses, including depreciation and amortization were consistent with the prior year period as lower selling expenses and professional services costs were partially offset by higher compensation expenses. The increase in compensation expenses was driven by approximately $3 million of accruals related to the previously announced Chief Executive Retention award, including a stock compensation component and a higher headcount in salaries, partially offset by lower short-term incentive compensation expenses.

Our tax rate in the fourth quarter increased to 29.8% compared to 19.4% in the prior year quarter, which brought our full year rate of 30.4%. The increased full year tax rate for 2023 primarily reflects limitations on deductibility of executive compensation related to the executive retention package and favorable adjusted items in the prior year. We currently expect the 2024 rate to be fairly similar to the 2023 level. Net income in the fourth quarter decreased 78% to $2.7 million, and adjusted EBITDA decreased 27% to $19.9 million.

Adjusted EBITDA margin declined from 21.5% in the prior year to 19.3% as a result of the reduced sales levels and related lower gross margins. As mentioned, the net income decline also reflects the impacts of the executive retention and award accrual, which is not included in adjusted EBITDA and a higher tax rate, partially offset by lower interest expense.

Turning now to our full year results on Slide 10. For the full year, net sales decreased 7% with the Debit and Credit segment down 8% and prepaid debit down 2%. Debit and Credit sales declines primarily reflect lower eco-focused card sales compared to very large orders in 2022 and declines in contact cards, partially offset by increases in volumes of other contactless cards. For the year, contactless cards, including eco-focused cards represented just over 80% of the volume of secured cards we sold, up from just over 75% in 2022. Card@Once instant issuance sales increased for the year, driven primarily by transaction processing fees.

Pricing contributed approximately 2 percentage points of growth in 2023, primarily related to actions taken in 2022. Full year gross profit decreased 12% from the prior year, with gross profit margin decreasing from 36.9% to 35.0% driven by lower sales levels and increased material costs, partially offset by pricing benefits and lower freight costs.

Total SG&A expenses decreased by $2.7 million as reduced professional services expense more than offset an increase in total compensation expense. The total compensation expense increase was primarily driven by accruals of $7 million related to the CEO executive retention award and higher salaries and headcount, partially offset by lower short-term incentive compensation expense. The final $2 million accrual for the executive retention award will be incurred in the first quarter of 2024. Full year net income decreased 34% to $24 million, and adjusted EBITDA decreased 8% to $89.5 million. Adjusted EBITDA margin decreased from 20.5% in the prior year to 20.1%, driven by the reduced sales levels, partially offset by lower operating expenses.

The net income decline also reflects the executive retention award and a higher tax rate, partially offset by lower interest expense. Turning now to our segments on Slide 11. I discussed the segment sales drivers earlier, so I will just discuss segment profitability on this slide. Income from operations for the debit and credit segment decreased 39% in the fourth quarter and declined 14% for the full year.

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Income declines in both periods were driven by decreased sales and higher material costs, partially offset by lower operating expenses. Prepaid Debit segment income from operations increased 35% in the fourth quarter to $7 million, with growth driven by comparisons with some large expenses incurred in the fourth quarter of 2022 and by labor efficiencies.

Full year income from operations for prepaid decreased 3% due to lower sales. Turning to the balance sheet with liquidity and cash flow on Slide 12. For the full year, we generated $34 million of cash from operating activities and invested $6.4 million in net capital expenditures, which resulted in free cash flow of $27.6 million. This compared to the free cash flow of $13.5 million in 2022. We were able to double free cash flow despite the net income decline due to strong improvement in working capital and reduced net capital expenditures as we tightly managed all spending in the challenging sales environment.

On the balance sheet, at year-end, we added $12.4 million of cash and no borrowings outstanding on our $75 million ABL revolver. We had $268 million of senior notes outstanding at year-end, a reduction from $285 million at the end of 2022 as we repurchased $17 million of notes in the open market during the course of the year. Our net leverage ratio of 3.1x at the end of the year was relatively consistent with the 2022 level of 3x despite lower adjusted EBITDA as we reduced our net debt.

Our capital structure and allocation priorities remain focused on maintaining ample liquidity, investing in the business, including possible strategic acquisitions, deleveraging the balance sheet and returning funds to stockholders. As you recall, in the fourth quarter of last year, we announced a $20 million share repurchase program with the authorization expiring at the end of 2024. Later in the quarter, we announced an agreement with our majority stockholder to purchase shares from them based on a multiple of our open market repurchases through March 31, 2024.

In the fourth quarter, we initiated the open market program, buying back $250,000 worth of shares, including what we have repurchased in the first 2 months of 2024, we have bought back more than $1 million in shares since beginning the program. Based on our agreement with our majority stockholder, we will repurchase from them in April, an amount equal to 3x the repurchases we made in the open market from December through March with settlement at 98% of the average price of our open market repurchases.

In total, including that agreement through February, we have repurchased or committed to repurchase more than $4 million out of the $20 million authorization. Turning to our '24 financial outlook on Slide 13. As John mentioned, we expect the customer inventory rebalancing to continue into 2024. Consequently, we expect first quarter sales to be similar to the fourth quarter of 2023 level. Over the course of the year, we believe the market will gradually return to growth, and we currently expect sales declines in the first half of the year to be offset by growth in the second half. For the full year, we are projecting slight increases in both net sales and adjusted EBITDA.

We are not projecting positive operating leverage in 2024 due to the relatively low sales growth expectations, and we are expecting cost savings initiatives to generally offset the impact of investments to support future growth and employee incentive compensation returning to more normalized levels.

In the first quarter, we expect adjusted EBITDA margins to be lower than the fourth quarter of 2023 due to having minimal employee incentive compensation accruals in last year's fourth quarter. Free cash flow for 2024 is expected to be $5 million to $10 million lower than the $27.6 million we generated in 2023 due to increased capital spending to invest for future growth. The CapEx increases include approximately $5 million of expected investment in the new production facility in Indiana, including incremental operating expenses and capital spending, we expect to spend about $20 million for this project, of which approximately $13 million will impact our cash flow over 2024 and 2025.

Once complete, this will double our size in Indiana and result in about a 10% increase in our overall real estate operating footprint. We expect free cash flow generation in 2024 to occur mainly in the fourth quarter, primarily due to the back half weighted sales growth as well as the impact of inventory build during the first three quarters due to purchase commitments we have in place for contactless chips.

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First quarter cash flow will also be impacted by the $5 million executive retention award payment. We currently expect a year-end 2024 net leverage ratio to be between 3 and 3.5x depending on cash flow generation and share repurchase execution, among other factors.

Overall, we expect 2024 to be a rebound year for the business once we clear the channel inventory rebalancing and expect to see more normalized trends in the back half of the year.

I will now pass the call back to John for some closing remarks on Slide 14. John?

John D. Lowe
President, CEO & Director

To summarize, 2023 was a challenging year for the market, and we believe the first half of 2024 will continue to be affected by cautious customer spending, but we expect growth to gradually return over the course of the year. We are focused on continuing to win business and gain share with our existing portfolio, while also expanding our addressable market over the long term through the introduction of adjacent product and service solutions.

We generated strong free cash flow in 2023 despite the decline in net income, and our outlook projects to return to slight sales growth in 2024, with declines in the first half of the year, offset by growth in the second half. Our leadership team is very excited about the future and proud of the strong team of employees we have in place, and I want to take a moment to thank all of our employees for their continued dedication and commitment to serving our customers well.

Thank you for joining our call today, and we will now open the call for any questions.

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Question and Answer

Operator

[Operator Instructions] We'll go first to Jaeson Schmidt at Lake Street Capital Markets.

Jaeson Allen Min Schmidt
Lake Street Capital Markets, LLC, Research Division

Just curious if you're seeing any cancellations or some of these headwinds are just due to push outs and delays in new programs?

John D. Lowe
President, CEO & Director

Jaeson. Good to talk to you again. No, I wouldn't say anything is related to cancellations. I would say, more related to just cautious spending that remains in the market, continuous inventory rebalancing, if you will. But as we said on the call, we expect the first half to continue to kind of be a little bit choppy, rebalancing to continue, but we expect in the second half to return to growth. But we're not necessarily seeing any cancellations or reductions of orders, if you will. It's more just overall slowness in the market.

Jaeson Allen Min Schmidt
Lake Street Capital Markets, LLC, Research Division

Got you. And then you noted expanding into some adjacent areas. Do you expect to see sort of meaningful inroads this year? Or is this year more about learning about the market and some of the opportunities there?

John D. Lowe
President, CEO & Director

Yes. Great question. We've been working on adjacencies for a number of years. As an example, I think you probably heard us in prior quarters talk about growth in the health account space that's HSA cards, flexible spending account cards. But the big areas that we're trying to grow into prospectively are Push Provisioning essentially where we're pushing a digital credential to a customer's wallet. That's an area where we feel like we have differentiation in the market because we're essentially agnostic to a core and processor that the small-to-medium bank issuers we work with have. So I wouldn't say it would be meaningful this year to the financials. But we definitely feel like over the longer term, it will be meaningful to the business. So kind of kicking it off and growing but not substantial this year.

Jaeson Allen Min Schmidt
Lake Street Capital Markets, LLC, Research Division

Okay. That's helpful. And then just the last one for me, and I'll jump back into queue, and serve a good segue to it. It was on that push provisioning. Do you guys expect to receive an incremental fee for this? Or is this just more an added service to increase the value proposition?

John D. Lowe
President, CEO & Director

Yes. So the economics of it are similar to unit cost for card sales. You're essentially adding on an additional service. So every time someone pushes that digital credential to their wallet, we are earning a fee off of that a processing fee, if you will, similar to what we do within our Card@Once instant issuance solution, so think of our Card@Once instant issuance solution, how we have transaction processing fees that occur every day across over 15,000 branches, push provisioning is a similar kind of economic animal, if you will. So every time someone pushes to their wallet, we get a fee.

Operator

We'll move to our next question from Andrew Scutt at ROTH MKM.

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Andrew Scutt

First one for me. I was wondering if you could provide a bit more details around the new Indiana facility and if you could help us quantify the potential capacity expansion. It sounds like the building is double the size of the existing facility. And any additional details around the build-out time line may be helpful as well.

John D. Lowe
President, CEO & Director

Well, I'll give an overview and then hand it off to Jeff. Our Indiana facility, we've been in for a number of years. We love Fort Wayne, Indiana. They do a great job for us. That's a facility where the leases expire in 2026. It gives us an opportunity to really move that facility, but in doing so, build out what I would call a state-of-the-art facility. That's efficiencies, it's both digital and physical kind of enablement, if you will, to tie everything together in the plant. And ultimately, we'll double our capacity in Indiana. But keep in mind that the expansion that we're doing in Indiana is roughly 10% of our overall footprint. So it's definitely a growth in capacity, but it's not significant to the overall business, but it will be a good growth to support our secured card business over the longer term.

Jeffrey A. Hochstadt
Chief Financial Officer

Andrew, this is Jeff. We are really excited about Indiana and the expansion opportunities there. So as we stated, it will probably be about a $20 million investment over the next several years, about $13 million cash flow impact over the next 2 years. And we'll probably be in that facility at the end of 2025. So a couple of years -- and that's really the time line. We're starting to build it out now, but that's probably when it will be ready.

Andrew Scutt

Great. And then second one for me. Can you kind of speak to the long-term potential of eco-friendly cards? You guys have seen really good momentum with the large issuers, but I'm curious as to how discussions with the smaller issuers have gone to date? And kind of just as adoption of the eco-friendly cards increased how this may impact company margins and profitability?

John D. Lowe
President, CEO & Director

Yes. So Eco is a great space for us. I mean, we started selling Eco into the market in 2019. We did that with one of the largest issuers in the U.S. We are, we believe, a leader in the eco-focus space in the U.S. selling more than 100 million cards. We don't update the stats every single quarter, but into the U.S. over time. If you think of the large issuer base similar to what's happened in the contactless transition, the largest of issuers move quickly. We've seen great success in that space. And now what we're doing, one of our big goals in '24 is to push and penetrate within our small to medium issuer base. And just to keep in mind, if you look at our Debit and Credit segment broadly, the majority of our revenue actually comes from those small to medium issuers. So we expect the transition to take a number of years and occur over time, similar to the contactless transition.

But we do have a significant number of what I would call small to medium issuers who were interested in the product and want to buy the product. We have been selling it on a smaller scale, if you will, but it will be a benefit to our overall -- we believe, our market share, our way to differentiate in the market, but also all of our eco-focused products, for the most part, are contactless and premium products, if you will. So you can also, generally speaking, charge either the same amount for a contactless card or sometimes a bit more.

Operator
And that concludes today's CPI Card Group Fourth Quarter Earnings Call. Thank you for joining, and have a good day.

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