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PMTS - Q2 2017 CPI Card Group Inc Earnings Call

EVENT DATE/TIME: AUGUST 02, 2017 / 9:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the CPI Card Group Q2 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference may be recorded.

I would now like to turn the conference over to your host, Mr. Will Maina, Investor Relations. Sir, you may begin.

William Maina - *ICR, LLC - SVP*

Thank you, and good morning, everyone -- good afternoon, everyone. Welcome to the CPI Card Group Second Quarter 2017 Earnings Conference Call. Participating on today's call from CPI Card Group are Steve Montross, President and Chief Executive Officer; and Lillian Etzkorn, Chief Financial Officer.

Before we begin, I'd like to remind everyone that this call may contain forward-looking statements as they are defined under the Private Securities Litigation Reform Act of 1995. Please refer to the disclosure at the end of the company's earnings press release for information about forward-looking statements that may be made or discussed on this call. The earnings press release is posted on CPI's website.

Please note there is also a presentation that accompanies this conference call and is also accessible in the IR section of our website. Please review the information along with our filings with the SEC and on SEDAR for a disclosure of the factors that may impact subjects discussed on this call. All forward-looking statements made today reflect our current expectations only, and we undertake no obligation to update any statement 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 EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted net income and loss, and diluted earnings and loss per share, free cash flow and constant currency. Please see the earnings press release on CPI's website for all the disclosures required by the SEC, including reconciliations to the most comparable GAAP measures.

And now I'd like to turn over the call to Steve Montross, President and Chief Executive Officer.

Steven Montross - *CPI Card Group Inc. - President, CEO & Director*

Thanks, Will, and good afternoon, everyone. Thank you for joining us on today's call. I will begin with an overview of our second quarter results and highlights, discuss the factors impacting our 2017 outlook, then cover current market conditions and close with some recent developments.

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Beginning on Slide 4. We have a summary of our second quarter 2017 results. Total net sales were $65.8 million, we generated breakeven adjusted net income in the second quarter. Adjusted EBITDA was $8.7 million and free cash flow was a negative $5.8 million.

Now I'd like to give you some more specific updates on the second quarter and our outlook for business trends for the second half of 2017 on Slide 5. Beginning with the second quarter, our reported results reflect the sequential improvement over first quarter 2017 results, with net sales up 17.6% over the first quarter, and adjusted EBITDA up $4.8 million from $3.9 million in the first quarter of 2017. Product net sales for the second quarter were $33.8 million, down 15.6% year-over-year. Similar to our first quarter, the decline in product net sales compared to the prior year period was predominantly driven by a decrease in our EMV card production volume. We produced 18.8 million EMV cards in the second quarter of 2017, down from 22.5 million in the prior year period, with the decrease again driven primarily by lower sales to large issuers. Partially offsetting this impact were increased revenues in the second quarter, from a contactless RFID loyalty card program for Tesco, which is the largest supermarket in the U.K. and has the UK's largest loyalty card program. Tesco is a long-standing customer of CPI, and we are very pleased to partner with them to relaunch their club card in the U.K.

Average selling prices, or ASPs, for our EMV cards were $0.86 in the second quarter, up slightly from $0.84 in the first quarter of 2017 and down from $0.94 in the year-ago period. On a year-over-year basis, our ASPs were primarily impacted by lower prices experienced in the large issuer market, as a result of more competitive pricing, partially offset by customer mix. As we mentioned on our last earnings call, we anticipate large issuer pricing will continue to be under pressure for the remainder of 2017. We have been able to realize lower chip cost to largely mitigate pricing pressure, and we will continue to actively pursue cost reductions, including in our supply chain. Our services net sales were $32 million in the second quarter, which is down slightly from $33.6 million in the prior-year period. Our U.S. card personalization fulfillment revenue in 2017 continues to run lower than last year, when we saw higher levels of new EMV conversion activity versus this year. Our leading financial card instant issuance solution, Card@Once, continued to show strong growth as we ended the second quarter with 6,355 installations, up from 6,050 installations at the end of the first quarter. Our Card@Once implementations are tracking to our expectations, and we continue to expect significant growth in this solution through the remainder of 2017.

As we have noted, the weakness in card manufacturing volume has been the most significant negative factor for our business in the first half of 2017. As we look ahead to the rest of 2017, we do not expect our card manufacturing volume to increase as we had previously anticipated for 2 reasons: first, lower overall industry card demand; and second, we have not gained new sales from existing customers as we had previously expected. In addition, while we are experiencing substantial and growing customer interest in our newer products and solutions, including Print on Demand and metal cards, the ramp up for this business is progressing more slowly than expected. These factors are leading us to reduce our outlook for the year, which Lillian will discuss in greater detail later in the call. And consistent with our ongoing efforts to generate additional cost savings and increased efficiencies, we expect to realize more than $10 million of cost savings in 2017. We continue to look for areas of opportunity to drive sustainable cost savings in our business to enhance the quality of our earnings. I also want to note that we have discontinued the quarterly dividend as part of our long-term capital allocation plan. And Lillian will discuss this in more detail later.

Turning to Slide 6. I will provide a brief update on current market conditions. First, let's review the market for U.S. debit and credit card manufacturing. This market remains challenging in 2017, driven by lower levels of demand, primarily from large financial institutions. There are 2 negative factors impacting card manufacturing: First, when the large issuers converted the vast majority of their card portfolios to EMV over the past few years, they pulled forward into those prior years card reissuances that would normally have occurred now, reducing current year card demand. And second, a portion of the market has extended its card expiry dates beyond 3 years, which had some impact on the frequency of reissuance and, therefore, annual card demand.

On the other hand, there are also 3 positive factors impacting card manufacturing demand, which we believe will benefit the market as we look forward: First, the number of cards in circulation continues to grow, and given the replacement nature of the cards, the outlook for future reissuance demand is positive; second, the U.S. card market continues its steady migration to EMV cards; and third, the premium portion of the card market, including metal cards, continues to grow. On balance, we now expect EMV card production in the U.S. to decrease in 2017 from 2016 levels versus our prior expectations of flattish volumes year-over-year. Our outlook for card demand beyond 2017 is positive, as we anticipate significant reissuance activity in 2018 and 2019 to replace cards issued in 2014 and 2015, when EMV migration began in earnest in the U.S.

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Moving to the U.S. prepaid market. We expect growth in this market in 2017. We continue to see good growth potential in the enterprise B2B and B2C verticals of prepaid, and we expect our retail prepaid card volumes will grow in line with the market in 2017. However, pricing pressure is expected to largely offset increased retail volumes, leading to flattish retail prepaid revenue in 2017 compared to the prior year. This view is unchanged from our prior outlook.

Moving to Slide 7. I will highlight a few new product and business developments. For our Print on Demand solutions, we are experiencing strong customer demand with a growing pipeline of business. We have approximately $10 million in committed business and another $10 million of business that we're confident of securing, most of which is expected to translate into revenue in 2018. As I mentioned earlier, the pace of implementations has been slower than we previously expected, which has pushed several customer onboardings from 2017 into 2018 and lowered our revenue outlook for 2017. I want to highlight that the delayed implementations are driven by customer timing and not related to issues with onboarding customers to our platform.

Turning to metal cards. Following certifications by MasterCard, Visa and Discover for our 2 product formats, we have seen strong interest from large financial service providers for our metal card products. We believe that the timing of metal card orders in production are now primarily a function of the customers determining their marketing programs around this new product. We remain optimistic about CPI's metal card opportunities. As I mentioned earlier, we continue to see strong acceptance of our Card@Once instant issuance platform. This platform is a true cloud-based, software-as-a-service solution, which is unique and differentiated in the market. We are continuing to experience strong growth of our installed base and our new implementations are tracking to expectations. We announced the commercial release of our precision by Card@Once solution in June, and have been pleased with the early results of this product.

The outlook is positive for continued growth in the U.S. instant issuance market. A leading payments industry consulting business forecasts approximately 10% compound annual growth of instant issuance installations and financial institutions branches over the next 4 years. And we are seeing interest in the application of instant issuance in new markets, other than financial institutions. We are also excited about the opportunity to broaden our value proposition and suite of payment solutions through digital services. We are seeing customer interest for a variety of digital payment products and capabilities for a range of different use cases. For example, we have developed and are in the process of launching prepaid virtual cards for 2 customers in support of their rebate and loyalty programs. These services will not provide meaningful revenue in 2017, however, digital services represents a promising growth area, and we will work closely with our customers to support their growing demand for scalable digital services.

While not a growth opportunity for 2017, I do want to provide an update on the more advanced contactless or dual-interface EMV product. The demand for dual interface cards in the U.S. remains low, and we continue to supply a small amount of dual interface cards. Nevertheless, we remain encouraged by our discussions with issuers regarding dual interface technology and the overall level of activity by issuers in setting up their dual interface product roadmaps. We continue to view dual interface as an opportunity for us in the future when adoption by issuers takes hold in a meaningful way.

In closing, the market remains challenging and we are facing some increased near-term headwinds that are impacting our 2017 guidance. However, our longer-term outlook for our business remains positive. Payment cards in circulation are growing and the EMV migration continues, which supports a healthy longer-term outlook for card issuance volumes. In addition, we are seeing strong demand for our new products and solutions, which we believe will drive increased growth in the future. CPI remains in a strong position, both from a competitive standpoint as well as from a financial standpoint. And the recent initiatives that we have taken to enhance our value proposition by expanding of our end-to-end solution suite, strengthen our management bench and run our business more efficiently will serve to strengthen our business for the long term.

With that, I'll turn the call over to Lillian to review the detailed financial results and 2017 guidance.

Lillian Etzkorn - *CPI Card Group Inc. - CFO*

Thanks, Steve, and good afternoon, everyone. Turning to Slide 10, you will see an overview of our second quarter results. Second quarter net sales were $65.8 million, down 10.7% from $73.7 million in the second quarter of 2016. Product net sales decreased $6.3 million from the prior-year period, primarily driven by a 16.2% year-over-year decrease in the number of U.S. debit and credit EMV chip cards sold, partially offset by the RFID

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loyalty card order from Tesco in the U.K. Services net sales decreased approximately $1.6 million or 4.8% year-over-year to $32 million, primarily driven by a decrease in card personalization and fulfillment sales, partially offset by growth in our U.S. Prepaid Debit segment. Gross profit for the second quarter was $19.3 million, a decrease of 15.1% year-over-year and representing a gross margin of 29.3% compared with a gross margin of 30.8% in the second quarter of 2016. Income from operations in the second quarter of 2017 was $2 million compared with $4.5 million in the prior year period. The year-over-year change in gross profit and income from operation primarily reflects the decline in our revenue, partially offset by our previously announced cost reduction actions and efficiency initiatives. We reported a net loss of $2.2 million or a loss of $0.04 per diluted share in the second quarter of 2017, compared with a net loss of $0.3 million or a loss of $0.01 per diluted share in the prior year period. We recorded a tax benefit of $0.8 million in the second quarter compared to a tax benefit of $0.2 million in the prior-year period. Our effective tax rate was 28.2% in the second quarter.

Turning to our non-GAAP measures. Adjusted EBITDA for the second quarter of 2017 was $8.7 million compared with $12 million for the second quarter of 2016. Adjusted EBITDA margin was 13.2% versus 16.3% in the year-ago period. The changes in our adjusted EBITDA and EBITDA margin primarily reflects lower net sales with the margin having some corresponding negative impact of absorption of overhead costs from these lower volumes. Adjusted net income was essentially breakeven in the second quarter compared with an adjusted net income of $2.6 million or $0.05 per diluted share in the second quarter of 2016.

Now turning to a review of our segments, which is on Slide 11. U.S. Debit and Credit segment net sales were $42.2 million for the second quarter, a 16.9% decrease from the prior year period. The corresponding segment EBITDA was $8.3 million, down from $11.4 million in the prior year period. The decline in our U.S. Debit and Credit segment results were predominantly driven by the decrease in EMV cards sold as well as lower average selling prices. 18.8 million EMV cards were sold in the second quarter of 2017 compared with 22.5 million cards in the second quarter of 2016. On a weighted average basis, average selling prices were $0.86 in the quarter, down from $0.94 in the second quarter of 2016, but up from $0.84 in the first quarter of 2017. The second quarter year-over-year decrease in average selling prices was primarily due to lower prices experienced in the large issuer market, cushioned by lower chip cost and customer mix. In our U.S. card personalization and fulfillment business, net sales decreased $1.7 million versus the second quarter of 2016, predominantly due to reduced EMV card production.

U.S. Prepaid Debit segment net sales were $12.4 million in the second quarter, up 3.6% year-over-year. Growth was driven primarily by net increased activity across our customer base, partially offset by lower prices attributed to product mix. U.S. Prepaid Debit segment EBITDA was $3.3 million, down slightly from $3.6 million in the prior year period. Finally, our U.K. Limited segment net sales were $11 million in the second quarter, representing an increase of 37.8% from the prior year period. Growth in our U.K. Limited segment was driven by the RFID loyalty card produced for Tesco, partially offset by the impact of foreign currency exchange rate fluctuations and decreased activity of retail gift and other cards. On a constant currency basis, U.K. Limited sales for the second quarter grew 64.7% year-over-year. U.K. Limited segment EBITDA was $1.6 million, up from $0.7 million in the prior year period.

Turning to our cash flow overview on Slide 12. Cash used in operations for the second quarter was $3.3 million compared with cash flow from operations of $16.4 million in the prior-year period. The year-over-year decline in cash from operations primarily reflects lower net income and increased use of working capital. Capital expenditures in the second quarter of 2017 were $2.5 million, down from $3.2 million in the prior year period. We paid cash dividends to stockholders of approximately $2.5 million in the second quarter. Based on our revised guidance, which I will discuss in a moment, we now expect to generate negative cash from operating activities for the full year 2017. Moving to Slide 13, our ending cash balance as of June 30, 2017, was $17.9 million. We ended the quarter with total debt principal outstanding of $312.5 million and a net debt balance of $294.6 million. Netting the deferred financing cost and discounts, our recorded total debt balance was $302.9 million. At June 30, 2017, our net debt leverage ratio was at 7.6x. As of June 30, 2017, we had an undrawn $40 million revolving credit facility, of which $20 million was available for borrowing. It is also important to note that our term loan has no leverage covenants and also the loan does not mature until 2022.

Before turning to guidance, I would like to discuss our capital allocations strategy. Looking ahead, we believe the most effective use of our annual free cash after necessary capital expenditures is to reinvest that cash back into the business to fund profitable growth initiatives as well as to reduce our debts. We are focused on creating long-term shareholder value by making the strategic investments necessary to position CPI to capitalize on growth opportunities in our industry and to return to sustainable profitable growth, while also strengthening our balance sheet and maintaining financial flexibility. In order to support these objectives, we have discontinued the quarterly dividend effective immediately, which saves approximately $10 million annually, providing us with additional liquidity and financial flexibility.

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Now turning to our guidance, which is summarized on Slides 14 and 15. Beginning with Slide 14, we seen 2 primary factors driving our revised 2017 outlook. First, our card manufacturing volumes are not expected to increase in the second half of 2017 at the rate we previously anticipated. As you may recall, our prior outlook was based on flattish EMV industry volumes in 2017 compared to 2016 levels. Based on our ongoing analysis of the market, however, we now believe EMV card production volume in the U.S. will decline in 2017 from 2016, and we have revised our guidance in accordance with this expectation. In addition to lower overall industry volume, we are also experiencing weaker-than-expected demand in new order activities from our customers, which we believe is partially due to some modest share loss. Our full year 2017 EMV card production volumes are expected to be approximately 20% lower than 2016 levels.

Moving down the slide. The second factor impacting our guidance is that growth from our new solutions is taking longer than we expected to materialize. More specifically, several new Print on Demand customers, which we previously expected to onboard in the second half of 2017, will transition onto CPI's platform in 2018. This was simply a timing issue, not a customer onboarding issue, as clients that we have already contracted with are ours and are in our backlog are simply taking a little longer than expected to transition. In addition, the bulk of revenue we previously expected for metal card sales in 2017 will now most likely occur in 2018. As Steve mentioned, we are pleased with the level of customer demand we are seeing for our metal card products and we believe that the timing of metal card orders and production are now primarily a function of the customers determining their marketing program around this new product. We remain optimistic about CPI's metal card opportunities going forward. As a result of these factors, we have updated our full year 2017 financial targets, which are on Slide 15.

We now expect 2017 net sales to be between $260 million and $275 million. GAAP loss per share is expected to be between a loss of $0.15 and a loss of $0.06, and adjusted diluted EPS is expected to be between a loss of $0.03 and earnings of $0.06. We expect to generate adjusted EBITDA in 2017 between $32 million and $40 million, resulting in an adjusted EBITDA margin of 12.3% to 14.5%. We anticipate achieving greater than $10 million of expense savings from our ongoing cost and efficiency actions in 2017.

With that, Valerie, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Brad Berning of Craig-Hallum.

Bradley Allen Berning - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Lillian, I was wondering if you could touch base a little bit more specific on free cash flow needs for the second half of the year, when you commented about the full year comment. And what kind of revenue run rate do you need to get to in early '18, to start to make sure that you are seeing positive free cash flow? I think given the change in guidance here, just people want to make sure we know what your expectation is on that? Secondly, now that you've been here a couple of quarters, help us walk through the process that you think is in place to help provide some increased confidence that the outlook is based upon expectations that are more likely realistically to be hit, given just that there's been a series of cuts for a couple of years almost, at this point. Just kind of help us walk through that process and help investors have some confidence in the numbers going forward?

Lillian Etzkorn - *CPI Card Group Inc. - CFO*

Sure. Thanks for the questions, Brad. So the cash flow perspective from operating cash flow. Yes, as I mentioned, we are changing our projection for that to be a negative outlook for this year. And a lot of that, quite candidly, is a reflection of what we've experienced in the first half, which has been a fairly significant move, both reflecting the overall net loss and also the use from working capital as we talked about before. As we start progressing through the year, and as we start going into the second half and generating the business that we're expecting to generate, we'll continue -- we'll begin to continue to generate positive cash from the operations. But we will still continue to have some modest expenditures from a CapEx perspective to continue to build the portfolio, support the growth initiatives that we do have. So there will be some capital requirements,

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there will be some working capital as we move through the year, but we'll continue to improve overall generation of cash in the business as the revenue in the business continues to deliver. So I expect as we look first half to second half, the second half becomes more positive. However, just given the significant negative use in the first half, we're not going to overcome that. So as we move into 2018, I fully expect us to be in a positive cash generating mode with what we're seeing. And in terms of your second question, in terms of the increased confidence. I have a lot of confidence in where we are with the revised guidance. I think this has been a bumpy time, it's been a bumpy time for the company, for probably the past year and a half, quite candidly. We came into this year with certain expectations of some market stabilization, which clearly as we've moved into the year and as we've had more channel checks and more third party data points, that assumption that there is stability in the market wasn't -- isn't coming to fruition. It's still not there, there still is some decline this year. But when I look at our projections for this year and specifically thinking about our card projections, it -- we're pretty, I'd say, balanced and conservative in our approach as we're looking at kind of the run rate of where we've been in the first half of the year, where we're continuing to trend in the third quarter that we feel very confident in the levels that we need to achieve on a full year basis. As I look to our growth initiatives, same thing. The growth initiatives are definitely positively received by the customers in the marketplace. It really is more of a case of anticipating the timing with the customers, which is something that you can't necessarily control when a customer is going to onboard and implement and launch the product. So I feel good about that from this year's perspective. I think from an overall forecasting process and in terms of the diligence that the company takes, I think we've been continuing to improve on that. We've continued to strengthen our capabilities around that and tighten up processes. But I do feel good with where we are sitting today, much more so than I'd say when I first stepped in. I think we're in a much better position and have a better feel of what's going on, both in the marketplace and in some of our initiatives here.

Bradley Allen Berning - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

One quick follow up is, as you take a look at 2014, 2015 EMV card issuance, and you look at the expiration dates on both what you know from your partners but also the ones the ones that you supply stock to, where you don't have the reissuance dates on, and you've been able to study that more. As of right now, what are your expectations for industry card EMV issuance in '18 versus '17? Are you in a position to not necessarily comment on what your share is going to be about, but at least help understand that those are expiration dates on the cards they don't change. So do you feel like you have a good grasp on what that number should be expected to be?

Steven Montross - *CPI Card Group Inc. - President, CEO & Director*

Yes, Brad, we -- as we mentioned in our prepared remarks, the EMV migration began in earnest really in '14 and '15, and our expectation is that we are going to see an increase in the issuance volumes as those cards expire, that we're going to see an increase in the issuance volumes in '18 and '19. The exact timing and the magnitude of that is something that we don't have good clarity on at this point. But through third parties and also some consulting firms that we have spoken to, the consensus is from those third-party sources that we -- that the industry should be seeing an uplift in reissuances in the '18, '19 time frame as those cards expire. And then based upon just a portion of our businesses, we start running through the EMV cards through our personalization fulfillment operations, the expectation is that we'll see increased reissuances of that work that was done back in '14 and '15, we'll see that coming in '18 and '19.

Operator

Our next question comes from Paulo Ribeiro of BMO Capital Markets.

Paulo E. Ribeiro - *BMO Capital Markets Equity Research - Associate*

Well where to start? Let's go through market share, you guys last quarter said you believe market share was fairly stable for you guys. And now we -- are you guys talking about modest? Can you walk us through a little bit how you got to that? And if possible, quantify market share or the impact they had? And then I'll have a follow-up.

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Steven Montross - *CPI Card Group Inc. - President, CEO & Director*

Sure. As we discussed before, very -- there's not one industry source that we can go to, Paulo, for volumes. And so it's very difficult to pick what is the market share, because we don't have an accurate picture of the total industry volumes for everything. We know ours, we don't know what they are for the total industry. That being said, we believe that our market share has fluctuated over a period of time, we've talked about that before. And where we are right now is we think that we have seen some market share erosion. Business in late 2016, business -- some business was lost due to price, we expected we were going to see growth from other customers in 2017, it was going to make up for that business lost. And that growth hasn't materialized as we expected. So at this point in time, we think that our share is down a bit from what it's been historically.

Paulo E. Ribeiro - *BMO Capital Markets Equity Research - Associate*

So trailing on that, so historically should we still think -- you talked before around the ideal time, 1/3 market share? Or that's not the perimeter, it's by the end of '15 or end of '16 it was already down. If you'd maybe quantify where you think you are? And second, if you could -- this loss in share that you price was, I assume and correct me, it's largely among large issuers? And if that's the case, where are you with smaller issuers, and where is the demand from that?

Steven Montross - *CPI Card Group Inc. - President, CEO & Director*

Yes, so I'll start with your -- the last question first, and then work back. Yes, where we are seeing the market share erosion is with large issuers. And large issuers have multiple sources of supply. And so that's -- and depending on the RFPs that are out there and winning or losing those RFPs market shares will fluctuate in that large issuer segment. And that's where we've seen some erosion, is around the large issuers. And our business with the small- and mid-sized issuers continues to be, I believe, relatively steady in that business. One of the things we don't -- we also don't -- we are not able to calculate precisely, Paulo, is again we don't have precise information is exactly the impact that the overall industry drop in volume is having or industry demand drop is having. But nevertheless, we think that we've seen market share loss in the large issuer segment. And then going back to the time of the IPO, we had said at that time that we thought that our market share based on publishing information from First Annapolis, a consulting firm, if their information was correct and looking at our volumes we believe that our market share ranged from about 30% to 35% of the financial cards, with 30% for the large issuer and 35% for the small- and mid-sized issuers. So we had put it in those ranges. So we think that our large issuer market share, again, we don't know precisely what it is because we don't have any industry figures. But we think that we've seen some erosion in that large issuer segment.

Paulo E. Ribeiro - *BMO Capital Markets Equity Research - Associate*

Okay, so one last step. Can you give an update on that product refresh in prepaid and large prepaid customers that impact last quarter results? Where we stand on that? And if that's included in your '17 guidance?

Lillian Etzkorn - *CPI Card Group Inc. - CFO*

Yes, the assumption [cause flowing in] . So it's -- our assumption at this stage is that it's going to still come through by the end of the year, and that's assumed in our guidance. It still hasn't been scheduled, but it is something that we're looking to see by the end of the year.

Operator

(Operator Instructions) Our next question comes from James Schneider of Goldman Sachs.

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Julia Anne McCrimlisk - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is Julia on the line for Jim. I was wondering in terms of pricing, is (inaudible) going to be the new normal? Or are you expecting to see more pricing pressure in 2018?

Steven Montross - *CPI Card Group Inc. - President, CEO & Director*

Yes. We think that in the large issuer segment, as we have said before, we think we'll continue to see pricing pressure in the large issuer segment. And that's where we're seeing most of the pricing pressure is in that segment. And so we expect -- and that is also something that we have talked about before and that our outlook was continued pricing pressure in that segment.

Julia Anne McCrimlisk - *Goldman Sachs Group Inc., Research Division - Research Analyst*

When do you think metal and dual interface cards will begin to alleviate some of that pressure?

Steven Montross - *CPI Card Group Inc. - President, CEO & Director*

Well metal cards, as we talked about before, metal cards, we're seeing strong interest. We believe we're going to be generating a modest amount -- a small amount of revenues this year, with some of what we expected happening this year moving into 2018, just given some delays on the part of the customers. So we believe that, that's starting to get some traction. And then dual interface, we're not seeing any clear cut plans for dual interface issuance. There's really 2 issuers so far or 2 issuances: One was around the Costco card, and another one is an issuer does it when they're being asked. But there's no definitive plans that we've seen so far by large issuers to start going to dual interface. So unclear exactly what the timing of that would be. We believe that they're -- that dual interface is a great customer convenience, it's been taken up by all the other major markets around the world as an important product. So we think that the value proposition is strong for the consumer. But no definitive plans right now, so we can't tell you what the timing is.

Operator

I'm showing no further questions at this time. I'll turn the call back over to Steve Montross for any closing remarks.

Steven Montross - *CPI Card Group Inc. - President, CEO & Director*

Okay. Well thank you, Valerie. I would like to thank all of our CPI employees for their contributions and commitment to serving our customers, and also want to thank our valued customers who depend and trust on us -- trust us to serve their business. Thank you, everyone, for participating in our earnings call. We look forward to speaking with you next quarter. Have a good afternoon.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you for your participation and have a wonderful day. You may all disconnect.

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