

**Intellicheck**  
**Intellicheck Q4 and Year End 2020 Earnings Call**  
**March 16, 2021**

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**Presenters**

**Gar Jackson, Investor Relations**  
**Bryan Lewis, CEO**  
**Bill White, CFO**

**Q&A Participants**

**Mike Grondahl – Northland Securities**  
**Kara Anderson – B. Riley & Company**  
**Scott Buck– H.C. Wainwright**

**Operator**

Greetings, and welcome to the Intellicheck Fourth Quarter and Year-End 2020 Earnings Conference Call. If anyone should require operator assistance, please press star, zero, on your telephone keypad. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Gar Jackson. Please, go ahead.

**Gar Jackson**

Thank you, operator. Good afternoon and thank you for joining us today for the Intellicheck Fourth Quarter and Full Year 2020 earnings call. Before we get started, I will take a few minutes to read the forward-looking statement. Certain statements in this conference call constitute forward-looking statements within the meaning of the Private Securities litigation Reform Act of 1995, as amended. When used in this conference call, words such as will, believe, expect, anticipate, encourage and similar expressions, as they relate to the company or its management, as well as assumptions made by and information currently available to the company's management, identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances and the company undertakes no obligation to and expressly disclaims any obligation to update or alter its forward-looking statements, whether resulting from such changes as new information, subsequent events or otherwise. Additional information concerning forward-looking statements is contained under the headings of Safe Harbor Statement and Risk Factors listed from time to time in the company's filings with the Securities and Exchange Commission.

Statements made on today's call are as of today, March 16<sup>th</sup>, 2021. Management will also use the financial term adjusted EBITDA in today's call. Please refer to the company's press release issued this afternoon for further information, reconciliation and context for the use of this term. We will begin today's call with Bryan Lewis, Intellicheck's Chief Executive Officer; and then Bill White, Intellicheck's Chief Financial Officer, who will discuss the Q4 and full year 2020 financial results. Following their prepared remarks, we will take questions from our analysts and institutional investors.

Today's call will be limited to one hour and I will now turn the call over to Bryan.

**Bryan Lewis**

Thanks, Gar, and welcome everyone to our fourth quarter and fiscal year 2020 earnings call. We continue to show solid growth with total revenue for fiscal year 2020, up 40% over 2019; and SaaS revenue up 54% during the same period. During the fourth quarter, total revenue was up 6% over Q4 2019. But more importantly, SaaS revenue was up 18% over the same period. Sequentially, Q4 SaaS revenue was up 23% versus Q3, 2019. We believe that given COVID and the return to lockdowns in portions of the country throughout the year, those numbers bode well for the future.

Let me explain. During 2020, we continued to add clients and retailers, and existing clients continue to add additional use cases all through the lockdowns, partial reopening's, depressed levels of retail traffic and returns to more lockdowns in some markets. Throughout the pandemic, we could immediately see the impact of closings and openings through transaction counts. From June through December, when some places began to partially reopen, albeit with limited traffic and typically occupancy restrictions, we saw an increase in transaction counts of 190%.

While this is an impressive sign of recovery from the pandemic, it isn't a complete recovery versus pre-pandemic levels. Same brand transaction volumes for Q4 2020 versus Q4 2019 were down an average of 20%, as many regions of the country were still not completely open or limitations on occupancy resulting in limited traffic. Even with this decrease in transactions, SaaS revenue was up both sequentially and year-over-year. We believe the increase was due to a number of factors. First, would be the new clients we signed over the year and the additional use cases employed by existing clients.

Over the course of the year, we executed 32 integrations that were either for new clients or expanded use cases with existing clients. In Q4, we had 10 companies either begin a pilot, sign on as new or an existing client expanding a use case. Considering that historically implementations have been limited during the fourth quarter peak holiday selling season, this was a good result. With our expanded focus on e-commerce transactions, we had two existing clients add facial biometrics to their person-not-present authentications.

During the fourth quarter, we initiated two pilots that had subsequently become clients. One was for a farm supply store with over 120 locations that is using our ID Check online fraud solution. The second was a bank consortium-owned company that helps financial firms detect and prevent fraud. They started with our no integration web product and are now working to integrate our API into their mobile apps and other products. During the quarter, we also signed a credit union located in L.A., demonstrating that we continue to expand adoption of our technology solutions in the financial services market vertical beyond banks. We also continue to expand into new markets with additional uses for our fraud stopping technology.

During the quarter, we signed a California-based company that does tenant screening for rental leases. This is a new vertical market for us and one that not surprisingly is a target for identity theft. I think this underscores what I've been saying. The use cases for where you will need to prove you are who you say you are, are ever expanding. The second driver of growth is the expansion of the online or person-not-present space. From June through December, we saw a 93% increase in these transactions, with 15 clients either adding the online solution or the addition of new clients that are only e-commerce focused. One retailer that has been with us for a long time saw a 16% increase in volumes during that same six-month period.

Driving growth was a topic I spoke with you about last quarter. You may recall, I shared with you my strategic vision that included investments to build on the growth we have achieved. I have taken those initial steps in sales and marketing. In January, we hired a VP of Marketing, a needed function Intellicheck had been lacking. This VP has already had an impact on our messaging, website, and more importantly, driving inbound leads. Our website has been updated to get our key messages across better and faster and will continue to be refined as our messaging evolves. The sales team now has improved marketing pieces and we'll be adding video to the arsenal to help them sell.

I also spoke about hiring salespeople to handle both inbound leads, and more importantly, extend our outreach, particularly, within newer markets. When you have the Senior Vice President of Fraud Prevention for one of the largest banks in the world calling your product, and I quote "a true game-changer in stopping fraud, top five all time in fraud prevention tools we put in place" that means it's time to really put the pedal to the metal. To do that, we need more salespeople. We have begun the process and have already started hiring high caliber talent.

We will also be hiring people with proven strategic account management experience. While our large financial institutions continue to expand use cases, I would like to see it happen faster. We believe that people who understand how to strategically plan and execute strategies to build on existing accounts are key to making that happen.

Additionally, as I said on the last call, paid placement is becoming the norm and we will be spending money judiciously to get our message out. We believe that marketing will be a key

factor that will help us expand into new markets. And as demonstrated by the new sectors we have entered into in the past year, it is part of our growth strategy.

2020 was a heck of a year I pray will never be repeated. I'm sorry for those on my team and those on this call who have lost loved ones. At the same time, I am seeing encouraging signs that we are turning the corner. With the vaccine becoming more widely available, hopefully, we are that much closer to herd immunity, a fully opened economy, and normalized retail traffic. In the meantime, what we've seen and continue to see, is that identity theft and fraud doesn't stop for a pandemic and has served to raise consumer and market awareness of the toll it takes.

Ultimately, the data tells the story. In the past year, one in five Americans fell victim to identity theft or attempted identity theft. According to a new Harris Research poll, identity theft has become top of mind for three in five Americans this year, and 60% expect they will suffer financial losses victims of identity theft. The need is there, and we remain confident we have an important role to play. So, we will continue to work with new and existing clients to expand the ways we can stop identity theft with our proven technology solutions.

In closing, I'm looking forward to 2021 and what we believe is the promising opportunity it holds for Intellicheck. I will now turn the call over to Bill to discuss our financial results in more detail.

### **Bill White**

Thank you, Bryan and a good day to our shareholders, guests, and listeners. I'd like to discuss some of the financial information that was contained in our press release for the fourth quarter and fiscal year ending December 31<sup>st</sup>, 2020. I'll begin with our fourth quarter results. Revenue for the fourth quarter ended December 31, 2020 grew 6% to \$3.078 million versus \$2.897 million for the same period last year. Our SaaS revenue was approximately \$3.012 million for Q4 of 2020, an 18% increase from \$2.557 million in Q4 of 2019, and grew 23% sequentially over the third quarter of 2020.

Gross profit as a percentage of revenue was 92.6% for the quarter ended December 31, 2020 compared to 88.8% for the quarter ended December 31, 2019. Operating expenses that consist of selling, general and administrative, and research and development expenses decreased by 4% or \$110,000 to \$2.389 million for the quarter versus \$2.5 million for the same quarter in 2019. The decrease is primarily due to reduced legal fees of sales-related expenses.

The company posted net income of \$1.260 million for the three months ended December 31<sup>st</sup>, 2020 compared to a net income of \$106,000 for the quarter ended December 31<sup>st</sup>, 2019. The net income per diluted share was \$0.07 versus net income per diluted share of \$0.01 in the prior period. It's important to note that approximately \$796,000 or \$0.04 per diluted share of our net income was related to the forgiveness of the PPP loan we received during the year.

Adjusted EBITDA for the quarter ended December 31<sup>st</sup>, 2020 was \$635,000 compared to EBITDA of \$216,000 in the quarter ended December 31<sup>st</sup>, 2019. Interest and other income were approximately \$800,000 for the quarter ended December 31<sup>st</sup>, 2020 as compared to \$35000 for the same period in 2019. The increase is due to the forgiveness of our PPP loan of approximately \$800,000. Turning now to our full 2020 year results, revenue for the full year ended December 31, 2020 was up 40% to \$10.7 million compared to \$7.7 million for the prior year. Our SaaS revenue for the calendar year 2020 was \$9.3 million an increase of 54% as compared to \$6.1 million in the prior year.

Driven by the growth in our SaaS business, gross profit as a percentage of revenue remains strong at 86.7% for the year ended December 31, 2020 compared to 87% during the same period last year. Operating expenses for the year were \$9.6 million compared to \$9.3 million for the year ended December 31, 2019. Selling, general and administrative expenses increased 4% to \$5.9 million for the year ended December 31, 2020 from \$5.7 million for the year ended December 31, 2019, primarily due to higher personnel costs and accrued incentive plans.

Research and development expenses were \$3.7 million for the year ended December 31, 2020 and 2019. The company had net income of \$558,000 for the year ended December 31, 2020 as compared to a net loss of \$2.5 million for the calendar year 2019. The net income per diluted share was \$0.03 versus a net loss of \$0.16 in the prior year. The weighted average per diluted share count were adjusted under \$18 million at year-end versus \$15.7 million in the prior year.

Adjusted EBITDA was \$329,000 for 2020, an improvement of approximately \$2.1 million as it compared to adjusted EBITDA of a negative \$1.8 million for 2019. Interest and other income was \$818,000 for the year ended December 31, 2020 as compared to \$99,000 for the year ended December 31, 2019. As mentioned earlier, this increase is due to the forgiveness of the PPP loan of approximately \$800,000.

I'd now like to focus on the company's liquidity and capital resources. As of December 31, 2020, the company had cash of \$13.1 million, working capital defined as current assets minus current liabilities of \$13.4 million, total assets of \$24.3 million and stockholders' equity of \$22.2 million. During the 12 months ended December 31, 2020 the company generated net cash of \$9.7 million compared to a net cash used of \$1 million during the 12 months ended December 31, 2019.

On June 23, 2020, the company completed a public offering of 1,769,230 shares of its common stock offered to the public at \$6.50 per share, resulting in net proceeds to the company of approximately \$10.7 million after deducting underwriters' discounts and commissions and operating costs paid by the company. Intellicheck intends to use the net proceeds from the offering for general corporate purposes and working capital. Net cash used in operating activities was \$19,000 for the 12-month period ended December 31, 2020 compared to \$1.8 million for the same period in 2019.

Net cash used in investing activities was \$415,000 for the 12 months of 2020 compared to net cash provided by investing activities of \$22,000 for the 12-month period ending December 31, 2019. And we generated cash of \$10.2 million from financing activities for the 12 months ending December 31, 2020 compared to \$793,000 for the same period in 2019. The company has a \$2 million revolving credit facility with Citibank that is secured by collateral accounts.

There are no amounts outstanding under this facility. We currently anticipate that our available cash, as well as expected cash from operations will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months. As of December 31<sup>st</sup>, 2020 the company had net operating loss carryforwards of approximately \$17 million.

I'll now turn the call over to the operator to take your questions. Operator?

**Operator**

Thank you. We will now be conducting a question and answer session. If you'd like to be placed in the question queue, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing star, one. One moment please, while we pull for questions. Our first question today is coming from Mike Grondahl from Northland Securities. Your line is now live.

**Mike Grondahl**

Yeah, thanks guys and hope all is well. Any initial comments on January and February, just kind of how that's trended in the New Year? And then secondly, I think you mentioned on the e-commerce side, maybe two clients or customers using the facial biometrics. Are they paying a premium for that, or can you kind of help us understand that offering a little bit more?

**Bryan Lewis**

Yeah. So, I guess working backwards so I can remember it, Mike. So, yes, there is a premium that's paid for the facial biometrics. So, it's an upsell to them. I will say that, a lot of people are interested in the facial biometrics, but it depends on the use case, depending upon how much friction they want to introduce into it. It tends to be more for things like a banking account opening or applying for sort of a substantial loan.

Those are the types of things that people are using it more for than just an authentication. So, it's one of the things that I think people want to see that you have but I don't see it being used very much, other than for maybe applications where the authentication isn't as accurate or certain as ours. They use it as a need almost, to weed out bad guys who might not want to get their picture taken.

In terms of volumes, we've definitely been seeing an increase over time. I wish the world was more open than it is, and the vaccine was more out there. So, I'm disappointed that we're not as open as I'd love us to be, but I am also very excited about the fact that we continue to add clients. So, we're seeing growth even with places that are still partially locked down or have occupancy restrictions.

**Mike Grondahl**

Got it. And then maybe just as a follow-up. I think I caught the 32 integrations in 2020. And then, I think, the 10 new pilots in 4Q were incremental to that 32. Anything you can give us on sort of new customers or new use cases and that momentum?

**Bryan Lewis**

Yeah. So, yeah. So, it wasn't 10 new pilots in the period, it was 10 new people coming on. Two of them are pilots. Most of our clients don't pilot much anymore because it's easy for us to give them tools to see how well it works. So, for the most part, those were the large integrations that required our tech team to talk to their tech team to connect. That doesn't include some of the things that we do that do not require any integration.

So, if somebody is using us on a mobile device or other those things, I don't count those as a large integrations. One, because they're not usually as large in terms of revenue but it doesn't take a lot to get those things going. That's more like law enforcement, smaller jewelry stores, bars, cannabis places, things like that.

**Mike Grondahl**

Got it. Okay. Hey, thank you, guys.

**Bryan Lewis**

Thanks, Mike.

**Operator**

Thank you. Our next question today is coming from Kara Anderson from B. Riley & Company. Your line is now live.

**Kara Anderson**

Hey, guys. Thanks for taking my question.

**Bryan Lewis**

Thanks, Kara.

**Kara Anderson**

Just wondering if you can expand on where you stand with the sales investments a little bit more in terms of how many people you've hired so far, what their expected ramp is and then the expectation for the number of hires for the balance of the year?



**Bryan Lewis**

So far, we've hired one. I'm probably going to be adding like three salespeople in total, one account management person to add to what we have on the team. Obviously, that will be rolled out, part is, I don't want to bring people so fast I can't train them. But what we are seeing, is that we're able to get people from the space, who I think we'll ramp very quickly, people who are used to dealing with the efficacy of the other systems that are out there and they come in and we let them play with what we have, and they see how accurate we are. I'm sorry. And they tend to be very excited to come on board. So, I think the fact that we're going to hire people who understand the identity authentication space will help with that ramp period.

**Kara Anderson**

And then, I think last quarter you guys put an expected investment kind of growth rate, which is inclusive of these hires. Correct me if it's wrong, if it was 10% to 15% for 2021 and whether or not that still holds true?

**Bryan Lewis**

I think, that as I looked at the market potential, we had out there and what I feel we're leaving on the table by not having more salespeople and more brand market awareness, I think that I'm looking to increase that spread out over the year. I think we've been very smart in terms of we don't just go spend money willy-nilly. But I do think given the amount of clients that we have, who are saying things like that VP of Fraud that I quoted, who will act as references for us, I think it's really time for us to kind of match some of the sales force sizes of our competitors. Because we do have, in my opinion, a much better way, much more certain way of authenticating a person becoming much more important in a person-not-present environment as many things do go online.

And we are much simpler to put in place and to use; much easier for somebody to scan the back of a license than take a photo. Because what I'd say, anybody on the call, try and take a photo of your license without glare on it. That glare is going to get in the way of authenticating anybody who's trying to authenticate through templating. We don't have those issues and that provides certainty. I think it's going to help us really grow, but I need the people to get that message out there.

**Kara Anderson**

Got it. And then just one more for me. Just thinking about the first quarter, you did comment about volumes there. But should we expect that you can grow through the seasonality of 4Q given the dynamic in some states like California, which (INAUDIBLE) in reopening in December? Just the general holiday shift that we saw that moved online this year versus in store.



**Bryan Lewis**

Well, we did grow in Q. I mean, that's the thing that gives me a lot of optimism about the future. There were a lot of places that went to some pretty regressive lockdown, shutdowns, whatever you want to call them, during that period as they saw COVID cases rise, yet we still grew. And at the same time, we still signed new clients who were, I'd say, barely active in Q4. And the fact that, as I said, same-store scans, when I look at clients that were fully up in 2019 versus 2020, the fact that their scans were still off even with the partial openings 20%, if that goes back to normal that, I think bodes well for us.

And I would assume that also anybody that newly signed on they probably have depressed floor traffic as well. So, I'm looking for the, hopefully retail comes back as everybody gets vaccinated and feels comfortable going out. But at the same time, we're, obviously, focusing on making sure that all of our clients understand how to use our digital channel products to authenticate when the person isn't there.

**Kara Anderson**

Sorry. Thank you for that. Just one more for me that I thought of. And I'm sorry if I missed this, but did you talk about the pipeline how it looks today for 2021 versus, say, a year ago?

**Bryan Lewis**

Are you talking about what we have in terms of integration queue and those types of things?

**Kara Anderson**

Yes.

**Bryan Lewis**

Yeah. It's the same. It seems pretty much, as soon as Bill and his team move somebody off, we've got somebody else coming in. So, that pipeline has stayed consistent. My only goal now is to make sure as we're bringing in new salespeople, I really tax Bill's implementations team capabilities by bringing in more people faster.

**Kara Anderson**

Got it. Thank you.

**Bryan Lewis**

Thank you.

**Operator**

Thank you. Our next question today is coming from Scott Buck from H.C. Wainwright. Your line is now live.

**Scott Buck**

Hey, good afternoon, guys. Just a couple for me. First, looking at 2021 and 2022, is it safe to assume that a lot of the new clients coming on are no longer the legacy brick-and-mortar retailers, but it's a lot more of the banks, the credit unions, the specialty lenders and maybe some of the call centers? And if that's the case, have you kind of exhausted the retail side?

**Bryan Lewis**

I'd say it's a combination of all of the above. And then I would also say, in no way shape or form have we exhausted the retail side. Our clients, our bank partners if you will, the ones who issued the white label credit cards, still have plenty to go. And that's where a lot of our pipeline comes from is, a lot of it comes from them and then a lot of it comes from the sales and the new accounts coming in from our sales force. But it is a combination of new markets, like the company that's checking, are you who you say you are when you want to remotely get that lease, to traditional stores where you are walking in and applying for stuff, and then new financial services firms that need to open accounts.

And then, thankfully, we still have a lot of business that's coming from our existing large bank clients who are finding new areas within their organization to use us. So, I like the fact that while we still have plenty of runway with the existing kind of retail credit card space, we're broadening who we're selling to and how we're selling, to make sure that we're across a much broader spectrum of clients.

**Scott Buck**

Great. That's helpful, Bryan. I'm curious, as you add some of these new markets, should we expect a smoothing of the seasonality?

**Bryan Lewis**

I guess. I don't have enough data to say some of these markets are seasonal enough or how they are. And I guess, if we're going into things that are not related to holiday shopping seasons more and more, I would say yes. How quickly that happens, I'm not sure.

**Scott Buck**

Great, okay. And then last one. I think this is the third quarter in a row where gross margins have run meaningfully higher than the 85% target. Should we start to look at maybe bumping that up for 2021 and 2022, or are you guys, I don't know, still directing people towards 85%?

**Bryan Lewis**

Yeah, I think I still (INAUDIBLE) Yeah, it's comfortable with that. I don't know, Bill, if you want to comment on that?

**Bill White**

Yeah. We didn't have really much in the way of hardware orders, Scott. So, from a mixed product perspective, I still think 85% is a good number. It's a conservative number, but I think it's a good number to go with.

**Scott Buck**

Great, guys. I appreciate the time.

**Bryan Lewis**

Thanks, Scott.

**Operator**

Thank you. We reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

**Bryan Lewis**

Well, I just want to thank everybody for tuning into the call. I want to thank my team for doing, I think, an excellent job during what has been a very trying year for all of us. And I truly do look forward to 2021. I was able to get my vaccine and I feel good and I'm happy about that. And I hope you all stay happy and healthy and good. And I look forward to when we can all travel again and so many of the people that are on this call that I haven't seen in almost a year, I look forward to seeing again. So, thank you all very much.

**Operator**

Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.