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MITK - Q1 2020 Mitek Systems Inc Earnings Call

EVENT DATE/TIME: JANUARY 30, 2020 / 9:30PM GMT



CORPORATE PARTICIPANTS

Jeffrey C. Davison *Mitek Systems, Inc. - CFO*

Scipio Maximus Carnecchia *Mitek Systems, Inc. - CEO & Director*

CONFERENCE CALL PARTICIPANTS

Allen Robert Klee *National Securities Corporation, Research Division - Research Analyst*

Darren Aftahi *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Kamil Mielczarek *William Blair & Company L.L.C., Research Division - Research Analyst*

Mark William Schappel *The Benchmark Company, LLC, Research Division - Director of Research & Enterprise Software Analyst*

Michael John Grondahl *Northland Capital Markets, Research Division - Head of Equity Research & Senior Research Analyst*

Todd Kehrli *MKR Group, Inc. - Co-founder & President*

PRESENTATION

Operator

Good day, and welcome to the Mitek Systems First Quarter Fiscal 2020 Financial Results Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Todd Kehrli, MKR Group. Please go ahead, sir.

Todd Kehrli - MKR Group, Inc. - Co-founder & President

Thank you, operator. Good afternoon, and welcome to Mitek's First Quarter Fiscal 2020 Earnings Conference Call. With me on today's call are Mitek's CEO, Max Carnecchia; and CFO, Jeff Davison.

Before I turn the call over to Max and Jeff, I'd like to cover a few quick items. This afternoon, Mitek issued a press release announcing its first quarter fiscal 2020 financial results. That release is available on the company's website at miteksystems.com. This call is being broadcast live over the Internet for all interested parties, and the webcast will be archived on the Investor Relations page of the company's website.

I want to remind everyone that on today's call, management will discuss certain factors that are likely to influence the business going forward. Any factors discussed today that are not historical facts, particularly comments regarding our long-term prospects and market opportunities, should be considered forward-looking statements. These forward-looking statements may include comments about the company's plans and expectations of future performance. Forward-looking statements are subject to a number of risks and uncertainties, which could cause actual results to differ materially. We encourage all of our listeners to review our SEC filings, including our most recent 10-K and 10-Q for a complete description of these risks.

Our statements on this call are made as of today, January 30, 2020. And the company undertakes no obligation to revise or update publicly any of the forward-looking statements contained herein, whether as a result of new information, future events, changes in expectations or otherwise.

Additionally, throughout this call, we will be discussing certain non-GAAP financial measures. Today's earnings release and the related current report on Form 8-K describe the differences between our non-GAAP and GAAP reporting and present the reconciliation between the 2 for the periods reported in the release.

With that said, I'll now turn the call over to Mitek's CEO, Max.



Scipio Maximus Carnecchia - *Mitek Systems, Inc. - CEO & Director*

Thanks, Todd, and good afternoon, everyone. Thank you for joining us today.

Jumping right in, we delivered another record quarter with first quarter revenue of \$22.1 million, representing growth of 25% year-over-year. We also generated non-GAAP net income of \$5 million or \$0.12 per diluted share, up 377% year-over-year, and cash flow from operations of \$5.2 million. We are energized by the ongoing momentum in the identity verification market as we continue to expand partnerships with our existing customers as well as grow adoption with new customers, particularly in the financial services, gig economy and marketplace segments. We also continue to experience growth from our highly profitable deposits product line as its adoption and utilization continues to increase.

Before I tell you about some of the key initiatives this quarter, we said we would keep you up-to-date on the patent litigation surrounding USAA, but there is a lot of detail that is somewhat complex, so please pay close attention. Let me start with the first case. USAA first sued Wells Fargo for patent infringement based on 4 patents that all relate to an image autocapture feature on a mobile device. Before the trial, Wells Fargo requested that the U.S. Patent Office perform an additional review of all 4 patents. Subsequently, USAA dropped 2 of the 4 patents from their lawsuit. At trial, a jury in the Eastern District of Texas found that Wells Fargo infringed at least 1 of the 2 remaining patents but did not specify which. Wells Fargo will likely appeal the decision. That process could take 18 months or more.

Following the jury verdict in November, the U.S. Patent Office agreed to review 3 of the 4 patents. It is important to understand that the standard the U.S. Patent Office uses in determining to review patents is that they must believe that there is a reasonable likelihood that at least 1 of the claims in that patent is invalid. So the Patent Office believes at least 1 of the claims in each of the 3 patents they will review is invalid. The Patent Office must complete their review within 12 months.

The Patent Office rejected Wells Fargo's request to review the fourth patent. The rejection does not, however, prohibit Mitek or any other party other than Wells Fargo, from requesting a review of this patent with additional information. If the Patent Office invalidates the 2 patents that issued before the end of the appeals process, then Wells Fargo would not have infringed as the patents would be invalid. Alternatively, if 1 or some of the claims are invalidated, the Federal Appeals Court could decide to reman the case for retrial since the jury did not specify which claim or claims of the 2 patents was infringed. Of course, none of this matters if the Appeals Court overturns the entire judgment on appeal.

Separately, Mitek filed an action against USAA on the same 4 patents in California, seeking a declaratory judgment from the court that Mitek's products do not infringe those patents. Mitek invented all of its core technology, and our products do not infringe on any USAA patents. We view the DJ action as an important step to provide certainty to our customers concerning the use of our technology, and we intend to vigorously defend their use of our product. The DJ process could take 18 months or more to complete.

Lastly, USAA filed a second lawsuit against Wells Fargo, which originally involved 5 USAA patents related to remote deposit solutions. In that litigation, USAA dropped 2 of the patents, and the judge in the case found that 1 of the remaining 3 patents was invalid. USAA won a jury verdict in January on the remaining 2 patents. It is our understanding that no Mitek product was accused of infringing either of the 2 patents in question as litigation involved broad banking processes and not Mitek's specific mobile deposit features. We believe that Wells Fargo will likely appeal the January verdict as well.

Now on to the main focus of our call, which is our outstanding first quarter performance. In the first quarter, our identity verification solutions continued to gain traction with our transactional SaaS revenue and transactions both growing 39% year-over-year. Mobile Verify, our industry-leading product, continues to be adopted by partners and customers of all sizes around the world. Our customers globally represent hundreds of the world's best-known brands and banks. Our continued customer acquisition as well as our expansion with our existing customers underscores the significant need for identity verification and its essential use case, which is to enable businesses to onboard more good customers faster, a value proposition that Mitek centers around.

One of our newest customers is HSBC USA. HSBC has corporate partnerships with large multinational firms and, therefore, needs to enable banking for foreign nationals living in the U.S. working for these companies. Their current new account onboarding process is highly manual, often requiring a video chat with an HSBC customer service representative or an in-branch visit. Applicants are also required to e-sign an account agreement to

complete the process. HSBC will be streamlining and automating this process by leveraging Mitek's Mobile Verify with face compare. Applicants can now capture their supported identity documents at the time of e-signature, along with a selfie image for identity verification. Customers no longer required to go to a physical branch. We are thrilled to work with our partners to enable more use cases just like this.

Also in the quarter, we secured a far-reaching partnership with one of the largest banks in the EU to supply high-confidence identity verification in multiple use cases for new account opening and account reverification. The rollout will begin in 2020 with long-term goal of providing this capability to over a dozen countries in Europe.

Identity verification is an essential step to establishing trust in the digital world where customers' relationships are being created without ever physically meeting. Mitek is the only enterprise-class provider in the identity category, and our standards of service remain unchallenged. Our relentless quest for customer success is validated through expanded partnerships and use cases and delivered through high-touch customer engagements.

We continue to innovate in fiscal 2020 with ongoing investments to deliver the world's leading, most accurate and most stable identity verification solution. Mobile Verify delivers against all measurements of performance: acceptance, availability, speed and assurance. And our professional services are best-in-class. As such, our proven track record of success continues to grow as we look to further expand our reach into this early but fast-growing market.

Switching to our deposit solutions. We remain the clear market leader with over 6,500 financial institutions using the deposit products. Retail banks are investing significant resources to drive customers to this digital channel. And as they do, mobile check deposits continues to increase. Recently, we partnered with Cornerstone Advisors to release the 2020 Mobile Deposit Benchmark Report, which ranks the top 20 U.S. banks on their mobile deposit use experience. The report validates that depositing a check is one of the most important mobile banking features available. More than half of mobile banking customers used their mobile banking app for check deposit in the past year. And mobile is the most prevalent deposit method for millennials and Gen Xers. 2/3 of respondents between the ages of 18 and 24 said that mobile deposit is their preferred method of depositing checks.

We are proud of how mobile deposit has changed financial services and become woven into the fabric of mobile banking, and we're excited about the significant opportunities ahead as we work to expand adoption into new verticals and add capabilities for existing customers.

In closing, we're pleased with our results, which include record revenue and significantly improved profitability. The Mitek workforce should take pride in how we deliver differentiated value to our customers. We have the teams, the vision, the technology and a market need of a solution that Mitek is uniquely positioned to deliver. Together, this amounts to a significant opportunity for all Mitek employees and shareholders.

Now I'll turn the call over to Jeff to discuss the financial results in more detail. Following Jeff's remarks, we'll open the call for questions. Over to you, Jeff.

Jeffrey C. Davison - Mitek Systems, Inc. - CFO

Thanks, Max, and thank you, everyone, for joining us this afternoon. Let's start with the Q1 revenue and operating results.

For the first quarter of fiscal 2020, Mitek generated record Q1 revenue of \$22.1 million, a 25% increase year-over-year. Software and hardware revenue was \$11.5 million, an increase of 15% year-over-year due primarily to continued growth in deposits revenue. We delivered strong software and hardware gross margins of 93% for the quarter. Services and other revenue, which includes transactional SaaS revenue, maintenance and consulting services, was \$10.6 million for the quarter, an increase of 37% over Q1 last year. This increase is due to growth in transactional SaaS revenue, which increased 39% year-over-year to \$6.1 million, and growth in maintenance revenue for deposit solutions.

For Q1 2020, deposits revenue increased 23% to \$14.7 million, and revenue for identity verification increased 28% to \$7.4 million. Gross margin on services and other revenue was 80% for the quarter, up from 74% in Q1 last year. Combined gross margin for the quarter was 87%, up from 84% in Q1 last year.

Total GAAP operating expenses, including cost of revenue, were \$21.8 million compared to \$22.2 million in Q1 last year. This decrease in total expenses is primarily due to lower expenses in our Paris operations as a result of the restructuring announced in July of 2019 and a decline in stock-based compensation and acquisition-related costs as well as expenses related to the strategic process and executive transition, which did not recur in 2020. These decreases were largely offset by increased expenses for investments in operations to grow our business and increase litigation costs.

As a reminder, in June 2019, we recorded a restructuring charge of \$3.2 million related to a reduction of 25 personnel in Paris. We estimated this reduction to be approximately \$2.5 million of annualized expense. We are realizing the benefits of this restructuring action, which has allowed us to make investments for our identity business and improve profitability.

Sales and marketing expenses for the quarter were \$7.3 million compared to \$7.2 million a year ago. R&D expenses were \$4.6 million compared to \$4.5 million last year, and our G&A expenses were \$5.3 million compared to \$5.8 million a year ago. The decrease in G&A expenses is primarily due to the previously mentioned items.

GAAP net income for the quarter was \$560,000 or \$0.01 per diluted share. Our diluted share count was 41.8 million shares compared to 38.2 million shares a year ago. As a reminder, our earnings release includes a reconciliation between GAAP and non-GAAP net income. We believe non-GAAP net income provides a useful measure of the company's operating results by excluding acquisition-related costs and expenses, stock comp expense, litigation expenses and the related tax impacts of these items.

Non-GAAP net income for Q1 increased to \$5 million or \$0.12 per diluted share compared to \$1 million or \$0.03 a year ago. In Q1, our non-GAAP adjustments included \$2.3 million of stock comp expense, \$1.6 million of acquisition-related costs and expenses and \$473,000 of litigation expenses.

Turning to the balance sheet. We generated \$5.2 million in cash flow from operations during the quarter, bringing our total cash and investments to \$39.9 million at December 31, 2019. Our accounts receivable balance of \$20.9 million represents a DSO of 58 days.

Now moving to guidance for the remainder of fiscal 2020. We are reiterating our previously provided full year revenue guidance for our fiscal year ending September 30, 2020. We expect full year total revenue to be between \$98 million to \$102 million, which would represent revenue growth of approximately 16% to 21% year-over-year. We continue to expect our non-GAAP operating margin in fiscal 2020 to be between 20% and 22%.

For Q2 of fiscal 2020, we expect total revenue of between \$23 million and \$23.5 million, representing growth of between 15% to 18% year-over-year. We expect total expenses, including cost of revenue for Q2 and excluding our non-GAAP adjustments, to be between \$18 million and \$18.5 million. We expect acquisition-related costs and expenses for Q2 be approximately \$1.6 million and stock comp expense to be approximately \$2.6 million.

Operator, that concludes our prepared remarks. Please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question will come from Mike Grondahl with Northland Securities.

Michael John Grondahl - Northland Capital Markets, Research Division - Head of Equity Research & Senior Research Analyst

Congratulations on the progress. We saw a big U.S. bank kind of do a promotion on mobile deposit in December and January. Do you think that had any effect driving new business? Or is that anything you see through, too?



Scipio Maximus Carnecchia - Mitek Systems, Inc. - CEO & Director

Yes. Mike, thanks for the shout-out. We see a lot of the banks, not just the big banks, but really, many of the institutions, running programs to try to drive more of that check traffic to the mobile channel. And the obvious reasons are there's a tremendous cost savings for them, right? So there's a hard dollar expense savings, but there's then also the reputational element of becoming more modern and relevant as a digital institution.

Back to your question, those things happen on an ongoing basis, and there's not a direct cause and effect that would happen in-quarter or maybe even within a year, just the way that consumption happens with the transactions in that side of our business.

Michael John Grondahl - Northland Capital Markets, Research Division - Head of Equity Research & Senior Research Analyst

Got it. And then any updated thoughts on pricing for mobile check deposit? Or any success you've had there recently?

Scipio Maximus Carnecchia - Mitek Systems, Inc. - CEO & Director

Yes. I want to be a little careful here how we advertise this. But I think, in many of these calls, we've been forthright in identifying that we believe that we have a dominant market position. We have a unique offering that provides value to our customers that they can't get elsewhere for depositing checks using a mobile device and that, historically, maybe we have not been standing as strong and tall behind that value as we should. Over the course of the last year, we've taken steps to start to move that, our pricing power, and move those prices in the northward direction. Some of those conversations have been difficult and challenging, but we haven't backed down. And so I think you'll start to -- you probably already started to see some of that in our results. And I don't think you'll see anything radical. It's not a doubling or a tripling of the price, but you'll definitely see us continue to want to establish fair value for what we're delivering.

Michael John Grondahl - Northland Capital Markets, Research Division - Head of Equity Research & Senior Research Analyst

Good. Yes, I would encourage you to do that, for sure. I think you deserve it.

Operator

The next question will come from Bhavan Suri with William Blair.

Kamil Mielczarek - William Blair & Company L.L.C., Research Division - Research Analyst

This is Kamil Mielczarek, on for Bhavan Suri. Congrats on the solid growth in the quarter. I just want to ask if you're seeing anything, any changes on the competitive front. Specifically, have you seen any changes in win rates since the November Wells Fargo ruling? And are you seeing any hesitance to buy, given this new January ruling as well?

Scipio Maximus Carnecchia - Mitek Systems, Inc. - CEO & Director

So Kamil, I assume your question is down on the deposit side of the business. Is that where that's coming from?

Kamil Mielczarek - William Blair & Company L.L.C., Research Division - Research Analyst

That's right.



Scipio Maximus Carnecchia - *Mitek Systems, Inc. - CEO & Director*

Yes. So no, I don't think we've seen any change in competitive dynamic on that side of our business, whatsoever. The DJ action that we spoke of earlier in the prepared remarks here and that we've talked about going all the way back to the beginning of November, I think it's being interpreted by the banking industry the way we intended and wanted it to be, which is it's the shield and the sword. We are out there actively, very actively protecting and demonstrating to our customers that we invented this technology, that we own these patents and that we will defend and put our money where our mouth is when it comes to that. And I believe, generally, what we're hearing back from customers, both those large banking core service providers as well as the banks themselves, is they recognize that this is an industry-wide issue, and it's not a Mitek issue, and that we are -- we're out there with the sword and the shield for the industry itself. No change in the competitive dynamic there.

Kamil Mielczarek - *William Blair & Company L.L.C., Research Division - Research Analyst*

All right. That's great to hear. And if I could just follow up. In the past, you've talked about there being dozens of use cases for your products at some financial institution customers. Can you provide some color around what is the typical size of the initial contract and follow-on growth rates at these customers?

Scipio Maximus Carnecchia - *Mitek Systems, Inc. - CEO & Director*

Yes. I'll try to take that on. It's difficult. I don't think there's a one-size-fits-all answer. It does depend on the institution. It depends on, geographically, who the regulators are. It depends on how they can actually absorb. But generally, what happens is there's an implementation period. And it takes some time for them, not just implement our solution but to get it within the flow of -- if we use a use case of a new account opening or an onboarding journey for a new customer, that's a months to quarters kind of experience. And towards the tail end of that, when they've got unit testing and system testing underway, they're typically doing a controlled environment that may only be friends and family. It may only be their own employees where the volumes are typically very low. And then they're rolling that out, whether it's into different geographies. In the United States, that may be a region-by-region, state-by-state thing. We watch those -- we typically watch those transaction volumes and the relating revenue start to grow in step. So it's a gradual but building kind of experience.

I don't know, Jeff, if you'd add anything to that.

Jeffrey C. Davison - *Mitek Systems, Inc. - CFO*

No. I think it's just a reminder that since this is still early stage, it's early stage with our customers, and so the opportunities often start proof-of-concept pilot and then grow from there. So really estimating an initial deal size, they all start small.

Scipio Maximus Carnecchia - *Mitek Systems, Inc. - CEO & Director*

Yes, and over time, gets much, much bigger.

Jeffrey C. Davison - *Mitek Systems, Inc. - CFO*

Yes.

Operator

We'll take the next question from Mark Schappel with Benchmark.



Mark William Schappel - *The Benchmark Company, LLC, Research Division - Director of Research & Enterprise Software Analyst*

Nice job on the quarter. Max, starting off with a couple of questions on the jury award. With respect to that, do those rulings have any impact on the continued use of your Mobile Deposit offering?

Scipio Maximus Carnecchia - *Mitek Systems, Inc. - CEO & Director*

It does not. So the only parties affected so far have been Wells Fargo and USAA. Nobody else, no other banks have been involved in that.

Mark William Schappel - *The Benchmark Company, LLC, Research Division - Director of Research & Enterprise Software Analyst*

And have you seen any change in your customers' buying behavior on the ID side of your business as a result of the jury award?

Scipio Maximus Carnecchia - *Mitek Systems, Inc. - CEO & Director*

Not at all. There has been no bleed over -- we've spent a good amount of time with you guys, with our shareholders obviously with customers and our partners make -- and our employees, of course, making sure that we're creating as much clarity as possible in a situation that's pretty complicated, as you heard in the prepared remarks. But that's -- the noise level on the identity side of the business has been close to 0.

Mark William Schappel - *The Benchmark Company, LLC, Research Division - Director of Research & Enterprise Software Analyst*

Okay. And then you came in with a particularly strong quarter, granted it's Q1. Not raising your guidance, was that just because it's so earlier and just trying to be conservative?

Jeffrey C. Davison - *Mitek Systems, Inc. - CFO*

I'd say a little bit of both. It's early on in the year. It's a good, strong quarter at 25%. There's still a lot for us to do over the next 3 quarters to get into the range we're in. So by no means are we looking at a slam dunk year for that guidance. We set a good ambitious number there, and we're determined to go hit it. But no point in raising it right now.

Mark William Schappel - *The Benchmark Company, LLC, Research Division - Director of Research & Enterprise Software Analyst*

Okay. Great. And then Jeff, recently, the company placed a buyback program. Any update there?

Jeffrey C. Davison - *Mitek Systems, Inc. - CFO*

Yes. So if you actually looked at the timing of that buyback, we announced it right as we were heading into a blackout from an insider trading perspective. So the Board approved that December 17, I think. And we have good insider rules that we follow, and so we could actually execute on it up-to-date so far. Obviously, we'll report in our quarterly Qs any activity that occurs under the buyback.

Operator

The next question will come from Allen Klee with National Securities Corp.



Allen Robert Klee - *National Securities Corporation, Research Division - Research Analyst*

Just following up on the patent legal side, and I'm -- this is -- I'm not a lawyer, but can you help me understand, if you're trying to get a judgment that your patents are not infringing, is there any issue that the court could say that you're basically asking for the same thing that's being handled in another court, so you can't get tried for like the same type of thing? I may be saying it wrong, but I think you know what I'm kind of saying.

Scipio Maximus Carnecchia - *Mitek Systems, Inc. - CEO & Director*

Yes. The declaratory relief action of -- we're referring to it in the short hand as a DJ action, is basically us asking a federal court, in this case, in the State of California, to provide a judgment regarding rights relative to these patents without ordering any damages or actions, right? So it just clears the deck and creates clarity for our customers around their rights to use and -- that our patents or prior art.

I'm not a lawyer either, and so I don't think I'm in a position to turn around and answer your question with any confidence. So I'm going to hold off and not do that.

Allen Robert Klee - *National Securities Corporation, Research Division - Research Analyst*

Okay. And then if I look at the identity segment, if that was more like stand-alone, how do you think about what revenue -- quarterly revenue run rate, it turns profitable? And maybe what revenue run rate you get to kind of what your target margins are -- operating margins for the segment? And what would those margins be?

Scipio Maximus Carnecchia - *Mitek Systems, Inc. - CEO & Director*

Yes. So I'm going to let Jeff answer the specifics there, but Allen, just to put a top cap on it, all of what you're asking is very controllable. Today, we are making very conscious and very intentional investments. In the identity business, it's a cash consumer, and we're making those investments because this market is very big, very fast-growing, very valuable. It's an intractable problem for customers in its very early stages. And so we want to be a leader there. We believe we're a leader already, but we want to be a leader 2 to 3 years from now when the market is really big.

So I'll let Jeff talk to what our models indicate where this should go.

Jeffrey C. Davison - *Mitek Systems, Inc. - CFO*

Talk to or not talk to us, we don't really give a lot of guidance on our product line forecasting. Allen, I'd echo exactly what Max said, right, we're making investments. And at any time, you can always pull that back.

As we look at that product group, I look forward if you're thinking we can continue to grow, which we hope to give our at rates that we're growing at over the next few years. And as you play that forward, the only thing we've really shared is that we anticipate we can see that product group turn the corner to profitability somewhere out there, probably around the end of 2021. And so if you go out and model those at a revenue growth rate similar to what we're seeing, I think you get an idea of kind of the size of the business that we would be at then.

And the picture is, over time, you're going to see gradual improvements in the gross margin line as you're able to leverage the SaaS model, the cloud model, cost model. And then we perform agent services. We'll continue to perform agent review services. Over time, though, more and more transactions will be able to be handled via the auto system, so that'll improve over time as well. And then the cost benefit you get below is really getting leverage out of your selling teams, your go-to-market and less investment in G&A and...

Scipio Maximus Carnecchia - Mitek Systems, Inc. - CEO & Director

Scale. Leverage and scale.

Jeffrey C. Davison - Mitek Systems, Inc. - CFO

The scale. Well, hopefully, that helps you with your question.

Allen Robert Klee - National Securities Corporation, Research Division - Research Analyst

Yes. That's great. And then maybe just finally there, when we think about the identity segment, should we be thinking of it similar to the kind of Mobile Deposit where you have this large defensible moat, something that's protecting you? Or is it just that it's a very large market that's early and you have a good solution that's out there? But is there a barrier to others coming up it being -- becoming much more competitive?

Jeffrey C. Davison - Mitek Systems, Inc. - CFO

I'll take that out of the gate here. It doesn't have a barrier like we have on the mobile deposit. I mean mobile deposit it's -- the characteristics of the market are completely different, right? You're -- first off, you're dealing with checks, which are declining over years. So the population of -- the addressable population is declining. So that's completely different. And we work through a network of processors who we have long-term relationships with, and we have patents. So there's a pretty good moat there, whereas you go to the identity space, that's an emerging market. There's not a lot of IP that's protected out there. There are some but not a lot of IP that's protected. And everybody is figuring it out. So that market is completely different with -- I don't know that there's a moat there. It's about being the most stable company, being a leader in the space, being first with the features and then actually delivering to your customers and earning their repeat business, which is where I think we focus our efforts and try to win.

I don't know if you have more on that, Max.

Scipio Maximus Carnecchia - Mitek Systems, Inc. - CEO & Director

No.

Operator

(Operator Instructions) The next question will come from Darren Aftahi with ROTH Capital Partners.

Darren Aftahi - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

A couple, if I may. First, on the deposit, thanks for giving that in detail. Jeff, I think you said the revenue is \$14.7 million, and that grew 23%. Is that correct?

Jeffrey C. Davison - Mitek Systems, Inc. - CFO

Yes.



Darren Aftahi - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Would you care to indulge what unit growth was relative to that revenue growth?

Jeffrey C. Davison - Mitek Systems, Inc. - CFO

That's -- we don't share that because that's not exactly how it lines up. So the revenue growth -- remember, those transactions are blocks that are sold upfront, so it's really not associated with the unit used in the period. What I can tell you about what was used in the period is it's pretty consistent to what we've been seeing. It's in the teens.

Darren Aftahi - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Got it. That's helpful. On your transactional SaaS, I used this one before that. I wanted to clarify. Did you say ID was \$7.4 million in revenue, and that was up -- what was the percentage in the year-on-year?

Jeffrey C. Davison - Mitek Systems, Inc. - CFO

That one was -- it was \$7.4 million, and I think it's 28%.

Darren Aftahi - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Got it. Okay. I just want to make sure my math is correct. On the transactional SaaS, that grew 39%, but on a dollar basis, I think sequentially that stepped down a little bit in Q1. And I know, looking back, that was down maybe a couple of years ago a little bit. Anything seasonal in nature with any particular clients? Or anything you would kind of call out as to why that was a step-down? I feel like it's been continuously growing in the last probably 8 or 9 quarters.

Jeffrey C. Davison - Mitek Systems, Inc. - CFO

Yes. So there was a slight step-down there, a couple of hundred thousand dollars, from the last quarter. The thing to keep in mind with that is it's transactional, so it's always subject to fluctuation based on whatever is going on in the customer base. So obviously, seasonality can impact that, which it did in the quarter, we had some customers with seasonality that was down. We actually had a couple of customers through some Spanish partners, so that would be a couple of Latin American -- I believe they're in Latin America, customers that actually churn, not significant but small enough, but I noticed it.

And then you've just got the different customers that, for one reason or another, they're seasonally up or seasonally down, and that could be due to the volume in their business or the volume that they're directing to mobile verification. So they may be turning on different sectors or turning off different sectors, which I think we've talked with you before in the past, geographies and such like that. So that's basically what's going on there.

Overall, we look for that number to continue to grow. We're enthused about the identity business. And everything we're doing now is in the cloud, which we're thrilled with, except for Spain, of course. And the thing about that business is we're adding customers. They're going live. They're getting benefit from this. And then there's always going to be a little bit of this movement in the network. So I hope that explains it.

Darren Aftahi - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Yes. That's great. Just 2 quick ones for me. Lastly, the profit margin, I think, was 22.5% in the quarter. This is typically your seasonally weakest quarter. I'm just -- historically, it has been. I'm just kind of curious why you kept that 20% to 22% guidance. And if you do -- keeping that, like where is the marginal OpEx going to come from kind of where you sit today?

Jeffrey C. Davison - Mitek Systems, Inc. - CFO

I think for the quarter, we're actually about 21%. The guidance is 20% to 22%, and we've invested in the first quarter. And so as I look throughout the rest of the year, it's probably going to be right around there, up or down slightly each quarter through the end of the year. Probably Q4 will be the strongest. But the reductions of A2iA really did let us make some investments in the identity group. And then if you look back last year and look at those non-GAAP adjustments that we had, that I don't want to call them, nonsense, but all the things we had to spend money on the trend, the process last year and that, there was quite a...

Scipio Maximus Carnecchia - Mitek Systems, Inc. - CEO & Director

Nonoperating elements.

Jeffrey C. Davison - Mitek Systems, Inc. - CFO

So the nonoperating elements. Not having those has been very helpful, too. So I'm really happy with where the margins came out for the quarter. And I think that we'll see something similar, up or down a few points each quarter the rest of the year that will help us get to that guidance range. The thing is I've got -- it's not our intention to go exceed that significantly because we think we need to invest in the ID business, which is where...

Scipio Maximus Carnecchia - Mitek Systems, Inc. - CEO & Director

Where the opportunity is, yes.

Jeffrey C. Davison - Mitek Systems, Inc. - CFO

Yes.

Darren Aftahi - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Got it. And then just lastly, on the rationalization on the ID platforms, kind of where are you relative to kind of last quarter? Is -- are we sort of 3 months more? Or is it going to take another kind of 6 to 9 months before it is all complete?

Scipio Maximus Carnecchia - Mitek Systems, Inc. - CEO & Director

Yes. So maybe -- this is Max. Just to remind everybody, so back in July, we said we were going to accelerate the rationalization of some of the legacy systems, both on-prem and in the cloud, that we had inherited through acquisition and some that were here natively. And so we kicked off that acceleration from a -- just to disclaim here, we said the stuff from Spain in ICAR is going to take longer. So that's not incorporated in what we talked about back in July. We have subsequently accelerated and end-of-life and end-of-sale and sunset, I think it was 3 or 4 systems since July. The overwhelming majority of revenue is now behind us from those systems. And maybe you want to quantify that, if there's anything to quantify.

Jeffrey C. Davison - Mitek Systems, Inc. - CFO

Yes. I think the hardware and software revenue line that you see now is probably close to plus or minus where it's going to land until the Spanish stuff goes to the cloud, which is a couple of years away. The rest of the ID business, I think it's safe to say now, all of the on-premise is done. And so that's in one of our cloud solutions. So we've got a few cloud solutions for ID. That's where the revenue should go. And then over time, we'll be end-of-life-ing one of those and getting down to one cloud solution.



Scipio Maximus Carnecchia - Mitek Systems, Inc. - CEO & Director

Yes. But from a revenue perspective, I think we're really at the tail end.

Jeffrey C. Davison - Mitek Systems, Inc. - CFO

There, yes. Pretty much there.

Operator

I'll turn it back to the speakers now for closing remarks.

Scipio Maximus Carnecchia - Mitek Systems, Inc. - CEO & Director

Is that it?

Todd Kehrli - MKR Group, Inc. - Co-founder & President

That's it. Thank you, operator, and thank you, everyone, for joining us today. We look forward to updating you again next quarter. Our call has concluded. Have a wonderful day.

Operator

Thank you. Ladies and gentlemen, this concludes today's event. You may now disconnect your lines.

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