

Intellicheck, Inc.
Second Quarter 2023 Earnings Call
August 10, 2023

Presenters

Gar Jack, Investor Relations
Bryan Lewis, Chief Executive Officer
Jeff Ishmael, COO and Chief Financial Officer

Q&A Participants

Rudy Kessinger - DA Davidson
Jeff Van Rhee Craig - Hallum Capital Group
Owen - Northland Securities
Scott Buck - H.C. Wainright

Operator

Good afternoon. Welcome to the Intellicheck Q2 2023 Earnings Call. At this time, all participants are in listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press “*”, then “0” on your telephone keypad.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Gar Jackson, Investor Relations. Thank you. Please go ahead, sir.

Gar Jackson

Thank you, Operator. Good afternoon, and thank you for joining us today for the Intellicheck Second Quarter 2023 Earnings Call.

Before we get started, I will take a minute 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 works management, as well as assumptions made by and information currently available to the company's management, identify forward-looking statements in 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, August 10, 2023. Management will use the financial term adjusted EBITDA in today's call. Please refer to the company's press release issued this afternoon for further definition, 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 Jeff Ishmael, Intellicheck's Chief Operating Officer and Chief Financial Officer, who will discuss the Q2 2023 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

Thank you, Gar, and welcome, everyone, to the Q2 2023 Earnings Call. Before I speak about our results, some highlights and some of the things we're doing to raise awareness of Intellicheck, I'd like to give a brief overview of who we are in case you are new to our story.

Intellicheck has taken its place as an industry leader, and we continue to distinguish ourselves as an exceptional identity validation company because our technology solutions are exceedingly accurate and extremely fast.

Many of you on this call are familiar with us, but for our newcomers and those of you to who could use an update, we are evolving, we are growing, and we continue to be focused on refining at every level to expand our penetration in key market verticals.

I believe that this growing reputation for excellence has led to our use by some of the largest banks and credit card issuers in the United States and Canada at their teller workstations, call centers, online and in their stores to validate their customers' identities.

We are currently in approximately 30,000 retail locations and over 4,800 bank and lender branches, not counting the pilots, and adoption continues to grow.

I feel equally confident that our demonstrated superior speed and accuracy is key to the fact that 28 state-level law enforcement agencies use Intellicheck to validate IDs.

And keep in mind that while law enforcement are the only people that can directly connect with every DMV in North America to validate an ID, they choose Intellicheck. Again, speed, accuracy and ease of use are the distinguishing factors.

Not to stop there, we're also much more than just ID validation for bars, restaurants, retailers, banks and law enforcement. For example, one of our verticals is our cannabis vending machine clients. To buy cannabis products, the customer scans a QR code on the vending machine screen with their mobile phone. That prompts our system. The ID is validated to prove it is real and you are of age.

Then a selfie is taken for facial recognition to show that you are the owner of the ID that you're holding, and the person has been geo-located to prove that they are standing at the machine-pretty sophisticated.

We are used by our clients because we simplify and speed the process allowing them to onboard more clients faster without making them feel like a criminal and almost as a byproduct, we virtually eliminate fraud.

And although I know there are many of you who may know our story very well, but given the number of locations we're in, I'm willing to bet that the majority of the people on this call have been run through our validation services and didn't know it was us.

Whether opening a credit card, doing in-bank or online banking transaction, making a change to an existing account, buying a car or making a retailer or age-restricted purchase, we are increasingly an integral part of the process, trusted by our customers to protect their business, reputation and you.

So with all this in mind, now on to some of the financial highlights that Jeff will further detail later. I'll start by saying that our trailing 12-month SaaS revenue continues to increase and has every month for the last 42 months.

Our momentum continued in Q2 of 2023 with SaaS revenue up 19% to \$4.7 million from \$3.9 million in Q2 of 2022. Gross margin improved to 92.5%, and we were EBITDA positive for the quarter. All of this positions us to continue to invest in the growth of the business.

Looking at some sales updates of note for the quarter. Financial services company #3, ran through their scan allocations and renewed for another 2.5 million transactions. Turning to the pilots of the two regional banks with 1,400 and 2,700 locations that will use Intellicheck in their bank branches, call centers and digital use cases, here's an update.

The 1,400 location bank intends to roll out next month when they finish the software update on the remaining scanners in about a third of their branches. The 2,700 location bank is live in their

contact call center for high-risk account openings with their much more expanded digital and online use case, planning to go live later in Q3.

The good news is that we are already in discussions on expanding to other partners with this bank, which is exciting and demonstrates their endorsement of our products.

Last quarter, I spoke about a channel partner who has incorporated Intellicheck into their platform and is working with an auto manufacturer with 2,700 locations. The manufacturers saw the early success of the pilot and decided that the launch had to be a big bang, but they had not adequately developed training materials or trained their trainers. That is being done now, and they plan to launch in September.

You may have seen in the press release about the success of the pilot program we had with the city of Charleston, South Carolina Bar and Restaurant owners, which now has become a permanent program. During the pilot, we detected 3,400 safe or invalid IDs. And I can tell you the bar owners and security staff love the system.

My daughter lives in Charleston and had her ID checked at a venue. She asked the man what they were using and he said, Intellicheck. And she said, my dad is the CEO, and it turned out he was the CEO of the security company hired by the venue. He gave her his card and asked her to call him. I did, and he couldn't stop raving about Intellicheck.

We are now looking to replicate this program in other college towns or places with rowdy entertainment distance.

Last quarter, I spoke about the diversification of our client base. So to provide further color in that regard, I thought I listed some of the types of clients we sold into in the quarter will help illustrate this progressive growth.

We onboarded 17 bars and restaurants. We onboarded a bank security company, an online marketplace for premium event seating, two more cannabis vending machine companies, a credit union and a small online bank, an Internet child safety company, nine more title companies and additional auto dealers.

What I continue to see is there are a lot of business to be had in the \$5,000 to \$50,000 annual revenue market, but our challenge has been we still do not enjoy the brand recognition befitting a company with multi-market vertical success, especially with the pedigree of our clients.

As you know, we've engaged in a growing number of efforts to address this challenge. We still aren't satisfied with where these efforts are standing, so we have brought on board an agency to rebrand and further develop our messaging.

As part of this process, they're speaking with clients across all sectors. We asked the head of fraud in one of our largest banks if he would be willing to speak with the agency. He basically told us he would love to because so many of our competitors only do about 20% of what they say they can do, while Intellicheck does 100%.

He said that anything he could do to help us improve our message and awareness and grow our business will be great for an industry that is trying to stop fraud.

When a client of this stature makes such an endorsement and offers further support based on the value of our technology solutions, it speaks volumes.

We expect this branding work to be done in Q4 and be ready to launch early next year. We believe that raising awareness about Intellicheck will help drive interest and leads in markets where we know accuracy is important because the stakes are so high.

As part of our evolution and refinement, we made some personnel changes, as well. We have promoted Jeff to Chief Operating Officer, in addition to his CFO role. Jeff has a very strong growth focused, SaaS operational background and his assuming this role allows me to spend more time on important initiatives in areas like sales, marketing and branding.

In his new position, Jeff will look to ensure our internal systems are all fully operational and properly integrated with each other. In addition, given his channel partner experience with Cylance, which really accelerated their growth, he is tasked with building out the systems and programs needed to support this, and I'll let him speak more in detail about that, shortly.

We have also brought in a new VP of Engineering, Jonathan Robins. We brought him on board for two reasons. First is to upgrade our technology stack, which will reduce our dependence on Microsoft products and Azure. We believe this will reduce our overall IT costs in 2024. The other reason is data analytics experience.

In his most recent role, he worked with the Chicago Cubs to develop the database and AI for them to track players, even young players, and build models that would help them predict future success and therefore, who they should draft or trade for. That is important because we've been speaking about data and the power of the data in a community setting. Each of our clients sees their own data, nothing more, but we see it all.

Our clients are very enthusiastic about pulling the data and then using AI and machine learning to bring insights to be used in modeling. Some said that would provide significant value, along with ID validation. Jonathan is in the process now of building out the data links that can make that happen.

I am very enthusiastic about the exciting developments happening here at Intellicheck. We look forward to sharing more on our expanding efforts to perfect and deliver our messaging on point

and about products such as the new effort being developed to tap into our data to help our clients stop even more fraud and therefore, generate more revenue.

With that, I'll turn it over to Jeff.

Jeff Ishmael

Thank you, Bryan. I'm pleased with the continued progress that we've been making across all levels of the organizations. We continue our efforts to redistribute our spend and investment into the areas that will fuel our growth and profitability.

Our second quarter SaaS revenue saw growth across our top accounts versus the prior year, continued to report a higher average price per scan versus the prior year, and we continued our progression towards adjusted EBITDA neutral results for the year.

As Bryan mentioned earlier, we're pleased to see the continued trailing 12-month growth progression in SaaS revenues each month, which has been achieved, consecutively, for the last 42 months.

Continuing to cast a critical eye to the metrics of our SaaS revenue, it's encouraging to see a 14.7% increase in our average price per scan versus the prior year, while we continue to see sequential monthly growth in our transaction activity.

With one large customer whose activities are primarily predicated on parsing consumer data at the point of transaction, our average price per stand is up 17% versus last year when adjusted for this customer.

I'm also pleased to see that our average price per scan has grown, sequentially, for the last 18 months, and we will continue to maintain a focus on the development of this metric. This is especially encouraging as it continues to speak to the testament of value realized by our customers.

We are maintaining a focus on ensuring that renewals across the entire customer landscape are including annualized CPI increases and that we continue rightsizing legacy customers that are entering renewal periods.

As we previously shared, to drive revenues, we've been shifting our expense focus to have a greater emphasis on SG&A, specifically our investment in sales and marketing. We're maintaining our focus on operating expenses to ensure that we achieve the expected return on our investments in this area.

Within the Q2 period, we initiated a complete overhaul of the customer success team, as well as the platforms they are operating on to better support our existing customers, as well as ensure a smoother onboarding experience for new customers.

We also signed and commenced the full brand strategy initiative that will be realized during the Q3 and Q4 periods.

We are also beginning the recalibration of our digital advertising strategy to increase the quality of our lead generation efforts. We are finalizing the release of a co-branded industry case study, and we're now initiating the implementation of our channel program to be completed by the end of the year.

As Bryan mentioned earlier, we're excited to putting in place a more formalized program that will support an expanded group of resellers, providing marketing and development funds to support their respective channels or regions, as well as develop a collaborative approach with our existing sales team on increased lead generation efforts.

We expect this program to have a noticeable impact on our 2024 pipeline growth and bookings. We believe that the combination of efforts discussed above will provide the necessary support from the sales team to drive increases in customer engagement, bookings and revenues in 2024.

Turning now to our second quarter results. Revenue for the second quarter of 2023 increased 18% to \$4,716 million, compared to \$4,008 million in the same period of 2022. Our SaaS revenue for the first quarter of 2023 grew 19% to a record \$4,663 million, from \$3,928 million during the same period of 2022.

Gross profit as a percentage of revenues increased to 92.5% for the second quarter of 2023, compared to 90.9% in the same quarter of 2022. The increase was driven by a higher concentration of SaaS revenues, a nominal decrease in hardware revenue, as well as continued improvements in our cloud cost structure.

As we discussed during the first quarter earnings call, we continue to model gross margin performance at a range of 90% to 91%, as we continue to improve our cloud cost infrastructure and may experience some cost overlap, thus nominally impacting our current gross margin performance. While we continue to scrutinize our cost structure, we'll continue to assess any specific impact.

Operating expenses, which consist of selling, general and administrative, marketing and research and development expenses increased \$392,000, or 8% to \$5,137 million for the second quarter of 2023, compared to \$4,742 million for the same period of 2022.

The increase was primarily driven by higher general and administrative costs, specifically headcount-related expenses related to the full accrual of severance-related expenses.

Included within operating expenses for the second quarters of 2023 and 2022 were \$323,000 and \$446,000, respectively, of noncash equity compensation expense.

While lower this quarter, we expect our total noncash expenses will continue to comprise approximately 13% to 15% of our operating expenses with stock-based compensation comprising 90% of that figure.

We continue to implement aggressive expense reviews to ensure we are effectively allocating the proper areas to support our growth initiatives.

With respect to our Q2 operating expenses, we enacted changes to the team that resulted in the Q2 severance accrual of \$417,000, which were fully accrued to employment agreements previously in place.

From an annualized perspective, these personnel changes, along with additional changes will yield approximately \$2.1 million in operating expense savings that we'll be able to reallocate towards our investment in sales and marketing initiatives specifically the brand strategy initiative and the launch of the channel partner program that will lay the foundation for the incremental revenues in 2024.

The company reported a net loss of \$777,000 for the second quarter of 2023, compared to the net loss of \$1.098 million for the same period of 2022. Net loss per diluted share for the second quarter of 2023 was \$0.04, compared to the net loss per diluted share of \$0.06 for the same period of 2022.

The weighted average diluted common shares were 19.1 million for the first quarter of 2023, compared to 18.8 million for the same period of 2022.

Adjusted EBITDA for the second quarter of 2023 improved by \$619,000, or 106%, resulting in a gain of \$36,000, compared to a loss of \$583,000 for the same period of 2022.

As a result of the expense initiatives we continue to put in place, we're able to realize improvement in our adjusted EBITDA results when compared to the same period last year, as well as the prior quarter.

Turning to the company's liquidity and capital resources. As of June 30, 2023, the company had cash and short-term investments in the form of U.S. treasuries that totaled \$9.1 million that is currently on deposit at Citibank and Capital One. Working capital, defined as current assets minus current liabilities of \$8.3 million, total assets of \$21.6 million and stockholders' equity of \$17.3 million.

It's worth noting that the U.S. Treasury subsequently matured in July, and we have rolled these over into a new tranche that matures in December with a weighted average rate of 5.1%.

The company has a \$2 million revolving credit facility with Cap Citibank that is secured by collateral accounts. There are no amounts outstanding under this facility, and the facility was not utilized during the quarter.

Turning now to our internal initiatives. Our second quarter continued to maintain a focus on improving our operational effectiveness and ensuring that we have the proper foundation in place to concentrate our revenue and the path forward towards being adjusted, even ensure like continuing to invest in the business.

We also continue to build out revenue and performance reporting to closely monitor the transactional health of our key customers and the key industries that we are targeting and serving. The focus will continue to be on driving revenue productivity across our key customers and ensuring that our sales team has the proper data and support they need.

As I mentioned in the operating expense remarks, while we recognize the severance accrual within the quarter, this will ultimately lead to the reallocation of approximately \$2.1 million towards our sales and marketing efforts, specifically the brand strategy initiative and the formal launch of our channel partner program, which will help lay the proper foundation for incremental revenues in 2024.

Employees also continue to be our largest internal asset, and we are pleased to continue seeing an increase in our average revenue per employee, which is up 14% versus the same prior year period, as well as up a full 36% versus 2021.

In reviewing other public companies in the \$0 to \$100 million revenue range in the technology services space which has 65 selected companies, we were in the upper quartile regarding this metric. We believe that we are currently rightsized from a head count perspective, and we'll continue to watch this with the caveat that the sales team will always have the latitude for opportunistic hires.

In consideration of our continued expense management, we will continue to improve the ratio of our operating expenses to revenue, as we continue our progression towards adjusted EBITDA neutral in 2023.

We will continue to implement disciplines that we expect will improve our expense ratio by approximately 800 basis points versus 2022, maintain our focus on gross margin performance of 90% to 91%, while seeing a fundamental shift in our expenses towards funding sales and marketing initiatives.

In closing, we're committed to the continued improvement of our corporate performance. We look forward to sharing our Q3 '23 results in November.

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

Operator

Thank you, sir. Ladies and gentlemen, we will now be conducting a question-and-answer session. If you would like to ask a question, please press "*" then "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", then "2" 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 the star keys. Again, if you would like to ask a question, please press "*" then "1" now.

The first question is from Rudy Kessinger from DA Davidson. Please go ahead.

Rudy Kessinger

Great. Thank you for taking my questions. The sequential growth was very nice to see. I'm curious if you could kind of attribute that growth quarter-over-quarter to a couple of buckets, I guess, existing customers, scan volumes coming in maybe stronger or higher than expected. Obviously, you called out a few customers that came online. But could you just talk about in more detail the quarter-over-quarter growth that you saw?

Bryan Lewis

Jeff, you ran the numbers, do you want to take that for Rudy?

Jeff Ishmael

Yeah, I can jump into that. So Rudy, on--as we mentioned on the call, happy to see the incremental transaction count. We've seen that grow every month and on a monthly basis, as well as for the year. On the variance for prior year period, we were up almost 11%. So, we saw pricing productivity with existing customers. We saw renewals in excess, hold the line, I just got that figure in front of me, too, but in excess of 96%. So, all the metrics we're seeing right now on revenue side are solid.

Rudy Kessinger

Okay. And then could you talk about kind of the--you mentioned some severance and restructuring. I know I saw Garrett departed. Could you talk about--was there anybody else you let go, particularly, I mentioned on the sales side, if there was any restructuring on that side, as well?

Bryan Lewis

We did a restructuring in the marketing department. We swapped out some, on the sales side, we swapped out some account managers but nothing that I would call a major restructuring. I would say that we did a big round of hiring, and you hope that 80% of the people are--you made the right decisions on them.

But I've said all along that we're going to watch people. If we don't think we're getting what we need out of them, we're not going to spend a ton of time. We're going to make sure that they're productive pretty quick. But the main part of that severance was really Garrett and marketing.

Rudy Kessinger

Got it. Okay. And then just the last couple of years now, you've had a very strong sequential Q1 to Q2, and then Q3 has been effectively flat versus Q2. I know you're not still giving guidance at this point but just directionally, how should we think about Q3 SaaS revenue versus Q2, given the visibility you have today into projects that are going to come online this quarter?

Bryan Lewis

I think it will be a matter of how fast we get some of the banks going. It is generally definitely a quitter period. But I think a lot of it is going to turn around to--part of the joy of working with large banks is they can be very big deals, but it also--it's sort of a hurry up and wait kind of mentality. So, while we don't give guidance, it's not like it--typically, isn't a blowout quarter. But we still expect to see continued sequential growth.

Rudy Kessinger

Got it, okay. I'll hop back in the queue. Thanks.

Operator

Thank you. The next question we have comes from Jeff Van Rhee from Craig-Hallum Capital Group. Please go ahead.

Jeff Van Rhee

Yeah, thanks. Sort of along the line of Rudy's question, I guess, as it relates to guidance. I know you don't give the formal outlook here. But to the extent that--based on what you see in the pipeline and what's in front of you at this point, does 24 from a SaaS standpoint feels sort of like steady as she goes? I mean, we're sort of printing 20%, give or take each quarter.

I mean, is your mindset sort of in that ballpark, or do you see things that suggest deceleration--acceleration? I know you don't want to quantify specifically but, directionally, maybe in those terms.

Bryan Lewis

I don't see deceleration. That's for sure. We've always kind of said that given--the sales team that was coming on new, thankfully, very strong that we were really expecting definitely kind of more end of the year growth and then more into 2024.

I've got to say that the pipeline that this sales team is bringing in is--has me excited. But again, you get a great pipeline with a bank and they're certainly developing a lot of large potential out there. But then it doesn't matter how much the business people want it, you still have to go

through all the stuff for the internal security controls. And that's sort of at the whim of those people.

So, I think we're kind of steady as it goes, but with the caveat that, when you're hunting whales, sometimes the whale comes in quicker and sometimes it comes in later. So, we could see surprises, sooner. I like to, in my mind, forecast these whales as they take a lot longer than normal, but then you get surprised when you land them much quicker.

Jeff Van Rhee

Yeah, so maybe to follow that then, as you look at your pipeline, I love to hear more. I mean, the breadth and depth of the pipeline, maybe some comparison to the overall--I don't know how you want to do it, a 12-month ARR in the pipe versus six months ago. Just how has it--is there any way you can quantify how it's changed? And then also within that question, is just the composition, is it more onesies-twosies? How is it biased big, small? Some color there might help build clarity on the guide.

Bryan Lewis

Yeah, I'd answer a couple of different ways here, I guess. One is what I'm very happy about is Chris doesn't--his pipeline is real, make sure his team's pipeline is real. So, if I look at the pipeline a year ago compared to where the pipeline is today on what was realistic then and what's realistic now, I'd say it's much larger.

And the other thing is, since Chris has really divided the team up, I think in a really good format so that we've got--people have different skill sets going after sort of different deals and then also dealing in verticals that they're comfortable in--we have a very good mix of very, very large deals to--we've got some folks that can turn around an auto dealership or a bar in two days. So it's very--I like the fact that just in the same way that we signed a very diversified group of clients in the quarter, we continue to do that so that we're not sitting here sort of praying that the whale comes in.

We've got that, again, that \$3 to \$50,000 a year pipeline really building. And they're doing a lot of that through brute force, which is one of the reasons that I want to make sure that we get the branding, the marketing, the messaging out there, right, so more coming to us than these guys having to go to them.

Jeff Van Rhee

Yeah. Got it--got it. And then just one clarification. I think you referenced in the call that the TTM scan price up 15%. Is there anything that complicates the math that taking a look at your TTM growth and backing that 15 out and the difference is your scan volumes?

Jeff Ishmael

No. I mean--so, the scan volume is up, Jeff. And then on a price per scan effectively on a fully blended basis, it was up 14% and then again, backing out that one customer that primarily on par saying that we were up 17%.

Jeff Van Rhee

Got it. Okay, thank you.

Jeff Ishmael

Thanks, Jeff.

Operator

Thank you. Ladies and gentlemen, just a reminder, if you would like to ask a question, please press "*" and then "1" now.

The next question we have comes from Mike Grondahl from Northland Securities. Please go ahead.

Owen

Hi, guys, this is Owen on for Mike, tonight. It sounds like there's some momentum rolling in terms of alcohol sales and a growing number of college stadiums, and you guys recently signed a big Midwest Stadium. I was just wondering if you guys need to call out there and how are you targeting growth in this vertical.

Bryan Lewis

I'd say that the stadiums, certainly, we've got people who are going out and targeting them. Because I think it's important that these people care about it because they make a lot of money off of it, and if they get it wrong, usually, the towns look to pull the license, so both the vendor and the university lose the money.

So, they care about doing the right thing. So, we definitely have a targeted outreach to them. The good thing is we now have, basically, a relationship with each one of the major concession companies that serve the universities. They all are sold on an individual basis. Each stadium is sort of its own business underneath kind of the umbrella of the concessions company.

But given that we now have, I guess, the main four are already integrated, know who we are, it's making that process, I think, should help speed it up and make it go quicker. So, it is a target for us.

I don't have people going out and knocking on bars in restaurants one at a time. I think that's sort of a waste of time. But what we're looking to do is target Charleston-like things and the councilman who was behind this initiative and the original bar owner who are behind this initiative are willing to help us out in any way they can to make this work.

So, I think doing larger kind of package deals like that is where we do outreach. Everything else is sort of inbound. And I think our law enforcement clients are some of our best references or salespeople because as soon as a place gets busted and they ask what are you using, we have a new customer.

Owen

Got it. Thanks, guys.

Operator

Thank you. The final question we have comes from Scott Buck from H.C. Wainright. Please go ahead.

Scott Buck

Hey, guys, I appreciate the time. Bryan, can you remind me--and apologies if some of these have already been asked--can you remind me, do you guys charge for your pilot programs, or is that something you kind of give away the carrot to get people in the door?

Bryan Lewis

Generally, we charge, but it can be a case-by-case basis, but generally we charge for pilots. And it can be sort of a different type of pilot you get up to a number of transactions or things like that. But put it this way, I'm not going to lose a deal because somebody huge says, well, we don't pay for pilots, so I'm going to be like, "I don't care" because I know once we're in, we're in.

Scott Buck

Right--right. Okay. That's helpful. And then I'm curious, how do you guys explore it, or are there potential partnership opportunities that could get you in the door with a meaningful number of potential customers?

Bryan Lewis

Yeah, that's exactly the whole program that really, Jeff is building the infrastructure for us to do it, so we're going to have proper deal registration and all that. We have a lot of folks that currently are reselling our products, but we need to formalize the program.

And there are absolutely--we've targeted and have been in discussions with people that need solid identity validation in different verticals. And so--but we've got folks that are reselling us in automotive. We've got some folks that have embedded us in things to scan for age-restricted products. We're talking to people that provide software, say, in the title insurance space. So we're definitely--that is where we think we could get a lot of growth, next year.

I'm happy to be Intel inside, like I said at the beginning of the call, I've got a lot of people have--we've seen you go through our system. You just never knew it was us because where somebody

just asked for your license, you don't know that it's us doing it. I'm happy with that model. And again, if they can get me in places, and I think automotive is always a great example.

There's something like 16,000 rooftops out there. I don't want to knock on every one of them. But if I can get the software provider that is in most of them to integrate our system, that's a quick and easy win.

Scott Buck

Yeah, that makes a ton of sense. And then I guess last one for me. Is it fair to suggest that you'll be managing the business at this kind of breakeven adjusted EBITDA level, as long as you see meaningful revenue opportunities that just take a little bit additional investment?

Bryan Lewis

Yeah, we're going to--look, I think that we're going to invest prudently, right. I'm not a big fan of spending cash on wild goose chases and things. If it makes sense, we're going to do it. If we continue to grow the way that we are, our margins suggest that there should be enough for investment and also building up the cash pool.

We know where we need to invest. We know what that dollar amount is, and it's not tons and tons of money. So, our goal is to be EBITDA neutral to -- we know that where we're at, and then after a certain point, we can't help but be EBITDA positive no matter what we do.

Jeff Ishmael

Yeah, one of the biggest questions we've got since I started was at what point are you guys going to hit adjusted EBITDA neutral. And so, rather than throw highly aggressive aspirational goals out there two years ahead, it's like let's just go ahead and let's hit that adjusted EBITDA neutral, which we are tracking for and we'll be hitting, this year.

If you take a look at our trailing 12-month adjusted EBITDA, we're just under negative \$200,000. So, we're tracking towards that and with Q3 and Q4 coming up, that would bridge that gap. But to Bryan's point, we're going to continue investing in the business but expect to see that ROI, too. And if we don't find that expected return, then it's going to fall straight to the bottom line, if we can't see that meaningful driver at the top line.

Scott Buck

That's helpful. I guess I'll try to squeeze in one more since I'm at the tail end, here. How do you think about the current marketing efforts? And how often do you revisit what kind of ROI you might be getting on your marketing?

Bryan Lewis

So, that's one of the things that we're looking at, and I think one of the reasons that we decided to make some changes in that and also why we've hired an agency to help us with that. I think

where we've got a lot of people that are really good in sales at the company, but marketing is definitely a different animal.

And again, that's sort of where we're going to put some money out to get--to make sure that we're doing it right and that they're measuring and telling us what we're doing, helping us, as Jeff said earlier in the call that we're really reanalyzing our whole digital spend, where we're getting what we wanted out of it.

And these folks are suggesting that we weren't, so that's why we put it on pause, while we figure out how to get it done better.

So, everything that we do, and it's one of the reasons that Jeff is on board, he's crazy analytical and looks at all this in detail. So, we will be analyzing it. We know that our messaging wasn't getting through. Having the head of fraud at one of our biggest banks say, yeah, you guys messaging, I'm happy to talk to any prospect you , but we've got to help you with the messaging. So, we're always looking at it, and we're working on it.

Jeff Ishmael

Scott, can you take a step back--when you take a step back, Scott, and you look at what we will have the ability to reallocate in the coming quarters, coming year at \$2.1 million. that's a lot of spend. And you're also going to ramp that spend up, appropriately. You just don't drive that within the first few quarters.

And as Bryan mentioned, driving a revised brand strategy and the rollout of that is a multi-quarter. As we're rolling out the channel partner program in the more formalized way, we expect to launch that in Q4 with realizing top line increases, new pipeline generation, all of that going into '24.

But again, \$2.1 million, at least for the stage that this company is at is a lot to channel back into sales and marketing. We're rightsized on the G&A side.

We are rightsizing on the product side. Jonathan is doing a tremendous job there. So, our spend can almost go entirely into it, that sales and marketing side.

Scott Buck

Got it. Well, I appreciate the additional color, guys. Thanks and congrats, again, on the quarter.

Jeff Ishmael

Thank you.

Operator

Ladies and gentlemen, that was our final question for today's conference. I will now hand back to Bryan Lewis for closing remarks. Please go ahead.

Bryan Lewis

Thank you. Thanks, everybody, for joining us today for the Intellicheck Q2 earnings call. Just as a reminder, we'll be presenting at the Sidoti Conference this Thursday, this coming Thursday. If you're interested in participating, we put out a press release earlier this week with the details. And with that, I'll say thank you, and have a great evening.

Operator

Thank you, sir. Ladies and gentlemen, that then concludes today's conference. Thank you for joining us. You may now disconnect your lines.