CPI Card Group Inc.

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Earnings Call

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Call Participants

EXECUTIVES

John D. Lowe
President, CEO & Director

Michael Salop

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Interim Chief Financial Officer

ANALYSTS

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Presentation

Operator

Welcome to CPI Card Group's Fourth Quarter 2025 Earnings Call. My name is Kate, and I will be your operator today. [Operator Instructions] Now I would like to turn the call over to Mike Salop.

Michael Salop

Thanks, operator. Welcome to CPI's Fourth Quarter 2025 Earnings Webcast and Conference Call. Today's date is March 5, 2026, and on the call today from CPI Card Group are John Lowe, President and Chief Executive Officer; and Terra Grantham, Interim Chief Financial Officer.

Before we begin, I'd like to remind everyone that this call may contain forward-looking statements as they are defined under the Private Securities Litigation Reform Act of 1995. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. For a discussion of such risks and uncertainties, please see CPI Card Group's most recent filings with the SEC. All forward-looking statements made today reflect our current expectations only, and we undertake no obligation to update any statement to reflect the events that occur after this call.

Also, during the course of today's call, the company will be discussing 1 or more non-GAAP financial measures, including, but not limited to, EBITDA, adjusted EBITDA, adjusted EBITDA margin, net leverage ratio, free cash flow and net sales growth, excluding the impact of the accounting change implemented in the second quarter. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures are included in the press release and slide presentation we issued this morning.

Copies of today's press release as well as the presentation that accompanies this conference call are accessible on CPI's Investor Relations website, investor.cpicardgroup.com. In addition, CPI's 2025 Form 10-K will be available on CPI's Investor Relations website.

On today's call, all growth rates refer to comparisons with the prior year period, unless otherwise noted. The agenda for today's call can be found on Slide 3, and we will open the call for questions after our remarks.

I'll now turn the call over to John Lowe.

John D. Lowe
President, CEO & Director

Thanks, Mike, and good morning, everyone. We are very pleased to report strong fourth quarter performance and solid results for 2025, a year which featured significant strategic, operational and technological advancements. As we discussed throughout the year, we anticipated our business to accelerate in the fourth quarter, and we successfully executed to deliver that growth with a record quarter, growing revenue 22%.

In addition to the contribution from Arroweye, this performance exceeded our expectations. We delivered strong growth across our debit and credit portfolio in the fourth quarter, driven by sales of contactless cards and ongoing double-digit growth from our Software as a Service-based instant issuance solution.

Revenue growth in the resulting operating leverage contributed to a 34% increase in adjusted EBITDA in the quarter and a 170-basis-point increase in margins, and we generated exceptional cash flow.

For the full year, we delivered 13% revenue growth and 5% adjusted EBITDA growth despite more than $4 million of tariff expenses. We generated $60 million of cash from operating activities and $41 million of free cash flow, both large increases over 2024, allowing us to maintain net leverage around 3x at year-end.

Overall, I'm proud of our team's execution, which resulted in a solid end of 2025, and significant advances with our strategic initiatives.

Now before I cover some of our significant accomplishments in 2025, I'd like to take you to Slide 5, covering how CPI is continuing to evolve with the market and the successes we are having executing on that strategic evolution.

After being CEO for 2 years, and after nearly 8 years here at CPI, I've recognized we are a company that is constantly adapting with our markets, evolving with technology and finding new solutions for our customers in whatever forms they need. Historically, the company has been and remains a leading producer of debit and credit cards for the U.S. market and chances are, we're in your wallet. However, while debit and credit card production and personalization are solutions we focus on advancing every day, they do not define CPI for the key role that we play in the U.S. payments market. We are broader than that with deep value in what we have built over many years and continue to build. We are a connector, an innovator, a company that educates our customers on the next big thing and how their customers can pay, and more importantly, how they can stay top of wallet, both physically and digitally.

At our core, our solutions help our customers win, allowing them to enable their customers to pay, whether in the form of a physical debit, credit or prepaid card, a digital mobile wallet, a digital card, a service that provides cloud-based instant issuance, or other revolving digital alternatives.

To summarize, CPI has evolved into a payment technology company that provides a comprehensive range of physical and digital payment solutions for thousands of U.S. financial institutions, processors, fintechs, prepaid program managers and more. Our proprietary platform and expertise uniquely position us to deliver today and into the future as the market expands and payment methods evolve.

Our strategy is to continue providing payment technology solutions that help our customers win, driven by 3 primary growth pillars that underpin our value proposition. These include: first, a proprietary technology platform with a vast reach into the U.S. payments ecosystem; second, our marketable base of thousands of deep and broad relationships across the U.S. payments market; and third, our proven track record of delivering evolving payment solutions that reflect changing market needs.

Let me spend a few minutes discussing each of these pillars, starting with our proprietary technology platform and vast reach into the U.S. payments ecosystem. Our capabilities make it simple for any customer to offer flexible payment solutions to their customers. Over more than 15 years, CPI has built a vast network of technology integrations and connections. In simple terms, we call these connections into the payments ecosystem pipes so an issuer's payment programs can be agnostic to any service provider, maintaining their sticky, long-term relationship with CPI, while offering their customers, U.S. consumers and businesses, the payment options they want.

Our connections are broad and include thousands of financial institutions, fintechs, credit union service organizations, program managers, processors, core banking systems, payment brands, mobile providers and mobile app development companies, among others. We proved this every day when we see our customers change their processor or banking core where we simply move the pipes to maintain our relationships.

CPI enables payments and informs the market wants. Today, it's debit, credit and prepaid accounts accessed via cards, mobile wallets and apps. And while probably many years away, we may see other forms for consumers to pay gain broader market acceptance such as crypto, biometrics and more. CPI's platform expands with our customers' growth and their ambitions to meet market needs.

Our second pillar is our marketable base. As CPI has evolved, our long-standing, deep and broad relationships continue to grow. Through a robust network of thousands of customers, partners and service providers, CPI solutions reach deep into the U.S. consumer base.

As the market shifts to add new payment methods, the fundamental need to securely deliver payment credentials does not change. That's where CPI shines with our reach. As consumer needs evolve beyond the physical, and complementary digital issuance and usage grows, issuers count on CPI to enable innovative solutions to meet those needs, and we've kept their trust by always delivering. That trust, built over decades, is why our customers count on CPI for their ongoing payments innovation. They know we'll execute. And if you're developing an innovative service that adds value for issuers, CPI can connect you to our broad marketable base, further solidifying our value.

Our final pillar is our evolving payment solutions by leveraging our proprietary technology platform and our marketable base. CPI has a proven track record of delivering evolving payment solutions that reflect changing market needs. Through significant investments in digital solutions, we're increasing CPI's value to customers, driving new and incremental recurring revenue streams and expanding access to CPI's platform to enable future digital capabilities.

So why are we doing this? According to a prominent study, digital issuance was the #1 new capability debit issuers planned to introduce in 2024 and remain the most cited priority for 2025, and we hear the same directly from many of our customers. Additionally, we expect digital issuance to not only be incremental, but to out number physical cards as penetration grows. That will be positive for CPI as we would expect digital to have greater economics in physical.

Let me give you 1 example to demonstrate what all this means, and that's our Software as a Service-based instant issuance business. The value of instant issuance is not rooted in delivering a payment card, it is about enabling issuers to instantly provide account access to their customers through a cloud-based service that is plug and play for a financial institution. We spent over a decade building the pipes to deliver this service to virtually any financial institution in the U.S. We integrated with and connected to all the major players in the financial ecosystem, resulting in CPI being able to offer the service to nearly any issuer regardless of the processor, banking core system or other relationship they operate through. With instant issuance, we leveraged our proprietary technology platform, provided a service to our marketable base and evolved our solutions to provide a plug-and-play cloud-based service, meeting the needs of the market.

In this case, the solutions enable account access leveraging a payment card, but we have been evolving to use these pillars to provide access to mobile wallets and other forms as well, which indicates where we see our solutions going in the future.

To summarize our evolving strategy, our decades long in the making connections, people and solutions enable payments both physically and digitally for a broad and expanding customer base, and these customers count on us to deliver what's next. CPI will continue to evolve with the market, delivering market evolution to our customers while creating more value for our shareholders along the way.

Let me take you to Slide 6 for how we will execute and share our progress. To advance our strategy and drive long-term growth, we recently announced a new organizational structure, promoting several leaders to new roles, tightening the focus on our customers, our operations and our digital capabilities. Along with the structure change, we are also reorganizing our reporting segments, driven by the success of our Software as a Service-based instant issuance and other digital solutions and to better reflect how we manage CPI today. This change will provide more visibility on our technology-driven solutions as well as highlight the growth and diversification of our business.

Our new reporting structure includes 3 segments: Secure Card Solutions, Prepaid Solutions and Integrated Paytech. Secure Card Solutions represents our business as a leading debit and credit payment card and personalization provider in the U.S. market. And we estimate we produce about 1 out of every 4 cards in the U.S. We believe we have gained significant market share over the years, and we will continue to push to gain more share in growing markets through innovation, quality and customer service. Prepaid Solutions consists of our market-leading open-loop prepaid card and secure packaging solutions as well as our growing prepaid health care payment solutions. We intend to grow our value in the prepaid market by creating innovative packaging for our open-loop market, expanding into the larger closed-loop market and providing fraud preventing chip-based solutions to the broader prepaid market, which we believe should further expand its value.

Integrated Paytech, our newest segment, which was formerly a part of our debit and credit segment, has reached the success level where it now represents more than 20% of CPI's profitability. We named it Integrated Paytech to reflect its value proposition of integration CPI has built over the last decade into the U.S. payments ecosystem, enabling it to provide ever-evolving payment technology to our customers. This segment represents an incremental addressable market opportunity, additive to physical payment cards. When we help our customers stay top of wallet digitally, we're not only creating greater value for our customers, we're adding incremental growth per customer for CPI. And we expect those who adopt digital usage to do so in greater numbers than they do with physical cards, using that same credential across multiple mediums such as a mobile phone, watch, tablet or laptop.

As we continue to grow our pipes into the U.S. payment ecosystem, our addressable market for these solutions continues to grow.

For a bit more context on Integrated Paytech's profile, it has roughly 55% gross margins, approximately 40% EBITDA margins, a 95%-plus customer retention rate and an expected growth rate of over 15% in the coming years as we intend to invest to accelerate our digital solutions growth faster than we did with our instant issuance solutions.

Now let's turn back to the 2025 results, and I would like to highlight some key accomplishments on Slide 7. In Secure Card Solutions, we acquired Arroweye and made significant integration progress, paving the way for future revenue and cost synergies while driving strong results during the process. Arroweye contributed $43 million of revenue and more than $6 million of adjusted EBITDA in less than 8 months in 2025, implying approximately $9 million of adjusted EBITDA on an annualized basis even before most of our expected synergies have been realized.

Post acquisition, Arroweye has signed more than a dozen new customers, showing the value proposition they have in the market when combined with CPI's packing.

We also completed the build-out and transition to our new state-of-the-art secure card production facility in Indiana, which will provide operational efficiencies, increase capacity and additional capabilities. And we invested in automation in our Colorado facility, which we believe will drive even more efficiencies. We believe these investments have already helped us gain share in 2025, including being a key driver to winning another 4 years with Velera. Velera is one of our larger, long-standing secure payment card customers and the premier payments credit union service organization in the U.S. servicing 4,000 financial institutions.

We made significant improvements to our personalization operations, which allow us to continue to increase capacity and maintain high quality, all while driving greater efficiency as we grow. We believe these advancements were a key contributor to winning one of the largest credit unions in Texas in 2025.

And we expanded our metal card offering, providing market competitive options to our marketable base. This expansion, while still small relative to the overall market position, contributed to our strong contactless card growth during the year with nearly $15 million in metal sales in 2025.

In Prepaid Solutions, we developed production and operational capabilities to enter the closed-loop prepaid market, which we believe has volumes greater than 5x the open-loop market and will increase in value as fraud prevention features are further adapted. We had a successful start in the fourth quarter and have already signed multiple deals since launch, including with the leading provider, TDS Gift Cards, who services many blue-chip customers in the U.S. such as Uber, DoorDash and others. Our reputation for quality, innovation and execution in the open-loop market is proven, and we are leveraging these attributes to drive our closed-loop expansion. While our prepaid business was down in 2025, we see strong signs of the transition starting to occur in the prepaid market. Fraud continues to drive either higher-value packaging or greater use of chip embedded gift cards, both of which would result in a unique market position for CPI as we are the only U.S. company that is a leader in both categories.

And in our new Integrated Paytech segment, we grew revenue nearly 20% as we continue to increase our instant issuance penetration and further built out integrations and customer pipelines for our evolving proprietary technology platform, including to expand the addressable market for push provisioning for mobile wallets. We expect to continue to see great things out of this segment, including strong growth and high margins, leveraging our market-leading value proposition.

One driver of our expected growth is our recently signed deal with a large U.S. processor and global leader in payments and financial technology where we have gained preferential access to more than 450 financial institutions and 3,500 banking locations, representing an opportunity to grow our Software as a Service-based instant issuance solution footprint by 25% over the coming years.

We also invested in an Australian fintech and program manager, Karta, to introduce into the U.S. chip embedded prepaid cards, which enhance security and provide user-friendly physical to digital experience. Our ownership in Karta after our investment is 20%, with the option to purchase an additional 31%. As we have worked with the Karta team, we continue to be impressed by their growth as a program manager in Australia, a large opportunity to grow their digital card validation solution branded as SafeToBuy in the U.S. prepaid market and their potential value as a program manager in the U.S. Our agreement with Karta also makes us their exclusive U.S. supplier of their SafeToBuy solution, providing contactless prepaid cards with chip technology embedding Karta's SafeToBuy applet.

Karta's solution eliminates the need for data to be printed on cards, significantly reducing the risk of prepaid fraud. And as a reminder, prepaid gift cards in the U.S. rarely are embedded with chip technology. So between Karta's technology to reduce fraud and CPI's prepaid and chip solutions, we were a perfect fit to drive meaningful and positive change in the prepaid market. We are currently in the second stages of a pilot for this solution with a large national retailer across hundreds of locations in the U.S., and we are seeing encouraging results.

Overall, we are proud of what our teams delivered in 2025, and we look forward to continuing to advance these initiatives and their benefits over the next several years. In 2026, we expect to deliver good growth again, and Terra Grantham, our new interim CFO, will give you more color on our outlook in a few minutes. Terra brings a wealth of CPI and industry knowledge and experience to this role, including most recently leading CPI's enterprise growth and strategy area and previous leadership of our Financial Planning and Analysis and Treasury teams, among others. She has been with the company for nearly 10 years, and I want to congratulate Terra for being promoted into this new role and I'm happy to have her join us for the call today.

Terra will now take us through the fourth quarter results and 2026 outlook in more detail. Terra?

Terra Grantham
Interim Chief Financial Officer

Thanks, John. I'm pleased to be here and look forward to meeting many of you in the coming months. I'll begin the detailed review on Slide 9 with the fourth quarter results.

Fourth quarter revenue increased 22% to a record $153 million, which reflects a strong $18 million contribution from Arroweye as well as double-digit organic growth from our debit and credit portfolio. Debit and credit segment revenue increased 40%, including the impact of Arroweye.

Organic growth for this segment was 20%, driven by strong sales of contactless cards and continued excellent performance from our instant issuance solution. Our personalization services also delivered a solid sales increase in the quarter.

Prepaid revenue declined 27% compared to the exceptionally high prior year fourth quarter, and sales increased 59% to $33 million, but revenue increased 4% compared to the third quarter. As we said at the beginning of the year, we expected prepaid growth to be constrained due to comparisons with the very strong year in 2024, and we ended the year down 3% when adjusting for the impact of the revenue recognition accounting change in the second quarter.

And as John said, the prepaid market is transitioning, but we expect that to be a positive for CPI.

We began closed-loop prepaid shipments in the fourth quarter of 2025, and we expect this business to ramp significantly in 2026.

Turning to profitability. Fourth quarter gross profit margin declined from 34.1% to 31.5%, although it increased from 29.7% in the third quarter. Compared to prior year, the margin decline was driven by increased production costs, including increased depreciation and tariffs and unfavorable sales mix, partially offset by benefits from operating leverage on sales growth. Mix trends stabilized, though, and were comparable to the third quarter.

Production costs in the quarter compared to prior year included $2 million of increased depreciation, primarily related to Arroweye and a new secure card production facility and $1.6 million of tariff expenses.

Fourth quarter SG&A expenses increased $3.3 million from the prior year, primarily due to Arroweye integration costs of $1.8 million and the inclusion of Arroweye operating expenses, partially offset by reduced medical benefit expenses compared to a high level in prior year.

Our tax rate for the quarter was 27%, which brought our full year rate to 31%, higher than anticipated coming into the year due primarily to nondeductible expenses related to the Arroweye acquisition.

Net income increased 9% in the quarter to $7.4 million as the benefit of sales growth were offset by integration costs related to Arroweye and a higher tax rate.

Fourth quarter adjusted EBITDA increased 34% to $29.4 million, and margins increased by 170 basis points from 17.5% to 19.2%, driven by sales growth and the resulting operating leverage.

Full year results and various explanations can be found on Slide 10.

Highlights for the year include revenue increasing 13%, led by double-digit growth from contactless cards and instant issuance solutions and a $43 million contribution from Arroweye following the May 6 acquisition. We believe Arroweye is already benefiting from being part of CPI, driving strong execution and increasing its ability to sell into the market.

Net income decreased 23% to $15 million, reflecting $6 million of acquisition and integration costs and a higher tax rate, partially offset by lower debt retirement costs compared to prior year.

Adjusted EBITDA increased 5% to $96.5 million as profitability from increased revenue was partially offset by the impact of unfavorable sales mix and $4.4 million of tariff expenses.

Turning to Slide 11. We had very strong cash flow generation in the fourth quarter and for the full year. Our cash flow generated from operating activities for the year increased from $43.3 million last year to $59.5 million in 2025, with $40 million generated in the fourth quarter. The increase in operating cash flow was driven by lower working capital usage, including better receivables and inventory management and cash tax benefits from the U.S. budget reconciliation bill.

Full year free cash flow increased from $34 million in prior year to $41 million in 2025, driven by lower working capital usage, partially offset by increased capital spending.

We spent $18 million on CapEx in 2025, double the prior year level as we invested heavily in our new Indiana production facility and other advanced machinery to support operating efficiency, capacity expansion and new capabilities such as closed-loop prepaid.

On the balance sheet, at quarter end, we had $22 million of cash, $25 million of borrowings on our ABL revolver and $265 million of senior notes outstanding. Our net leverage ratio at year-end was 3.1x as cash flow generation mostly offset the funding of the Arroweye acquisition in May.

During the course of 2025, significant capital allocation included the acquisition of Arroweye for $46 million, an investment in Australian prepaid fintech, Karta, and completion of the new production facility in Indiana as well as retirement of $20 million principal of our 10% senior notes in July.

Before turning to our 2026 outlook, I would like to share the new business segment reporting John mentioned we are implementing this year on Slide 12. Beginning with the first quarter reporting, our business segments will include Secure Card Solutions, Prepaid Solutions and Integrated Paytech. Secure Card Solutions includes our debit and credit card production and personalization businesses, including our Arroweye on-demand solutions. This business should provide steady growth over time, driven by ongoing cards in circulation growth and share gains from our leading innovation, quality and service.

As noted in our appendix slide, cards in circulation in the U.S. continued to increase with the latest U.S. cards in circulation trends from Visa and Mastercard showing a 7.5% compounded annual growth rate for the 3 years ended September 30.

Prepaid Solutions, which has not changed from our prior prepaid segment, includes our open-loop gift cards and secure packaging, health care payment solutions and closed loop. We expect open loop growth to be driven by continued innovation in fraud prevention packaging and the introduction of chip cards into the prepaid market, and overall segment growth to benefit from expansion of health care and development of our closed-loop solutions.

Our third business unit is Integrated Paytech. As John said, as our success has grown, we are now breaking this out as our fastest growing, highest margin unit consisting of strong recurring revenue businesses that rely on our vast and expanding technology connections into the U.S. payment ecosystem to provide various payment solutions to our customers. The majority of our revenue in this segment today is driven by our Software as a Service-based instant issuance solution, but we expect to ramp digital push provisioning for mobile wallets and other digital solutions in the coming years.

On a pro forma basis, this segment would have represented 14% of our 2025 revenue and more than 20% of our EBITDA at an 18% growth rate with EBITDA margins of approximately 40%.

Over the next few years, we expect more than 15% annual top line growth from the Integrated Paytech business segment, while the EBITDA growth will be impacted by investments to accelerate our top line growth.

Turning to our 2026 financial outlook on Slide 13. We expect another good growth year while continuing to invest heavily to support our strategic initiatives. We are currently projecting high single-digit revenue growth with growth across our portfolio, led by expected double-digit growth from our Integrated Paytech segment. Our adjusted EBITDA outlook for the year is low to mid-single-digit growth, which reflects benefits from sales growth and cost savings activities, partially offset primarily by approximately $4 million in incremental spending to drive Integrated Paytech growth and penetration and other technology investments.

Our outlook reflects $6 million of tariff expenses.

Similar to our instant issuance trajectory, which took years of investment before scaling and turning into a high-margin recurring revenue business, we are still in the investment phase with many of our digital solutions, which is impacting our overall near-term profitability. While some level of paytech investments will continue into future years, we expect our digital solutions profitability to expand greatly once revenue begins to ramp and scale in the next 2 to 3 years.

Regarding tariffs, there is still uncertainty on how the newly announced tariffs will be applied and what permanent tariffs may be enacted later in the year. At this point, our outlook reflects estimates based on a full year of the tariffs we paid in 2025.

We are working hard and pursuing various avenues to seek refunds for tariffs paid in 2025 based on the recent Supreme Court ruling. We expect a tax rate between 30% and 35% in 2026 and strong cash flow conversion, with capital spending likely similar to 2025 levels as reductions in spending on physical capital is replaced by increased technology capital spending.

We would also expect free cash flow conversion at similar levels to 2025 and continued improvement in our net leverage ratio ending the year between 2.5 and 3x.

As we complete integration of Arroweye in the first half of 2026, we are projecting approximately $5 million to $7 million of final integration costs.

Similar to 2025, we expect revenue and EBITDA levels to ramp during the year with the fourth quarter again being the largest, although revenue growth rates will benefit early in the year from the addition of Arroweye. However, we expect adjusted EBITDA in the first half of the year to be flat to down slightly with prior year due to digital and technology investments and a slow start of the year in prepaid.

Overall, we believe the environment is healthy and our momentum is strong, and we look forward to delivering a good year in 2026 while continuing to invest and advance various key strategic initiatives for long-term growth.

I'll now turn the call back to John for some closing remarks.

John D. Lowe
President, CEO & Director

Thanks, Terra. Turning to Slide 14 to summarize before we open the call for Q&A. We had an exceptional fourth quarter, with revenue growth acceleration, strong adjusted EBITDA growth in margins and excellent cash flow generation. For the full year, we achieved solid revenue and adjusted EBITDA growth and generated over $40 million of free cash flow. We accomplished many strategic and operational objectives, including the Arroweye acquisition and investment in Karta, the completion of our new secure card production facility, entry into the closed-loop prepaid market and the ongoing build-out for our other digital solutions. We are excited about our new organizational structure to drive our strategy and the long-term opportunities to enhance incremental growth.

We intend to continue leveraging our expanding proprietary technology platform, our extensive marketable base and our evolving portfolio of payment solutions to meet the market needs, drive growth and enable our customers to win. We are confident in our strategies and teams, and we expect to deliver another good year in 2026.
Operator, we will now open the call up for any questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Jacob Stephan with Lake Street Capital Markets.

Jacob Michael Stephan
Lake Street Capital Markets, LLC, Research Division

Congrats on the results. Welcome, Terra. Maybe just to touch on something that you kind of talked on the closed-loop market being 5x larger. So pretty significant opportunity for you guys. How are these sales cycles any different from potentially other prepaid deals? And do you have to change anything internally for -- to kind of capture this market?

John D. Lowe
President, CEO & Director

Yes, Jacob, good morning. So it's interesting. The closed-loop market, you're right, 5x larger in volume, probably slightly higher than that. The value of closed loop, we expect to continue to grow and become even greater as we expect packaging to become more pervasive, if you will, across the United States, mainly due to regulatory changes in fraud. But from a sales cycle perspective, we actually have a slightly accelerated sales cycle versus our normal -- just our broader portfolio in general. And that's because, in the open loop side, we've been working for most -- all the program managers that are out there. With the addition of Arroweye now, we work for all of the major program managers. So we have relationships with, I'd say, more than half the market that is already selling into the closed-loop space. So as we build out our capabilities, we have the proven ability to execute and deliver. And so that's given us the right, if you will, to move into the closed-loop market fairly quickly, winning some deals, locking down contracts and really building out the whole operation in late last year. And ultimately, we believe we're going to have a decent growth out of that in 2026.

Jacob Michael Stephan
Lake Street Capital Markets, LLC, Research Division

Okay. Got it. Helpful. Maybe just to kind of put a cap on that. So can you kind of help us think through the recent announcement with TDS, and how the closed-loop opportunity kind of plays into the high single-digit growth guidance for 2026? I know you guys kind of talked about that being an important driver this year.

John D. Lowe
President, CEO & Director

Yes. Yes, and Jacob, good question. There's a lot of moving parts in our business. We've diversified quite a bit over the years. The prepaid market in general is, it's kind of odd because it's actually a little bit choppy right now, but that is positive for us. And the reason I say that is because, if you look at the broader prepaid market, fraud has been prevalent for a number of years. It's been a bit of a cat and mouse game. That has caused -- on the open-loop side, where we are the market leader by far, that has caused significant kind of improvement in fraud preventive packaging, if you will, that we're constantly trying to innovate with our customers to stay ahead of the -- I would say, the criminal activity from a fraud perspective.

But because of that, you're also starting to see, on the closed-loop side, the same thing happened, right? You're starting to see states enact regulations that say, the closed-loop gift card has to be a package or has to have a chip in it. And you're starting to see, as an example, on the open-loop side, just like our investment in Karta where we own 20%, have a call option to grow to 51%, we're using their unique technology with one of our larger customers on the prepaid side and ultimately one of the larger national retailers in the United States to go through a second stage of pilot where we're putting chips in prepaid cards to reduce fraud.

And that -- those results have been very strong. That said, it creates kind of this environment in the prepaid market where the program managers, the distributors, others, the merchandisers are trying to understand, okay, do we move towards greater packaging, do we move towards putting chips in prepaid cards more broadly, which is more expensive. But ultimately, if you think about CPI and what we do, right, we are by far the leader in open-loop packaging. We have the scale that no one else in the market has. We are also one of the leaders in the United States from a chip embedding perspective in the debit and credit market. So we are the only player in the U.S. market that has strong capabilities on both sides.

And so while the prepaid market is choppy this year, and actually, they're starting the year slow, and we would expect that to ramp up over the course of the year, but still have a fairly flat year to slow growth year, ultimately, over the long term, it's going to be really positive for us given how we're positioned in the market. So I know a lot to take in there, but hopefully, that helps.

Jacob Michael Stephan
Lake Street Capital Markets, LLC, Research Division

Yes. And you kind of touched on my last question. Obviously, fraud has been a pretty important theme over the last year, 1.5 years. As we kind of look out to 2026 and maybe even beyond, is there potentially another sort of like recurring revenue type business that you would be interested in potentially acquiring with AI kind of boosting fraud rates? And I'm wondering if there's any sort of additional software solution that can help on the fraud prevention side that you guys might be interested in?

John D. Lowe
President, CEO & Director

Well, we do already resell one major fraud solution that uses AI in their modeling, if you will, in their machine learning to prevent fraud on the debit and credit side. That's something that -- they're a fairly large player in the debit and credit market connected into a lot of the processors to kind of builds off our proprietary technology platform and our ability to provide those types of services to our financial institution base broadly. But fraud is a market that is constantly changing. And so from an acquisition perspective, it would have to be a software that's proven and has an ability to constantly pivot on the fly. So right now, our strategy on fraud is really to help from kind of the production perspective as well as producing technology from what Karta produces to be able to prevent fraud on the prepaid side, where we believe there's probably a lot more value, and ultimately, in the debit and credit side, provide solutions from a more commercial perspective.

But if you think about on the prepaid side of our business, what Karta does, they're taking data off the prepaid card and ultimately using their solution to not only reduce fraud just by the fact that you can't steal the data off the card, but their solution also loads the prepaid gift card onto your mobile wallet and is a digital issuance platform as well. So there's kind of multiple value propositions on the Karta side. But from the fraud side, it's constantly changing. So it has to be someone who has really unique technology to look at them from an M&A perspective.

Operator

Your next question comes from the line of Craig Irwin with ROTH Capital Partners.

Craig Irwin
ROTH Capital Partners, LLC, Research Division

So John, when I look at my wallet, I'm seeing new cards from Chase, Wells Fargo and Fidelity provided by CPI. These are large issuers. Now I'm not asking you to comment about any of these specific large issuers, but I'm sure there's probably others. Can you maybe just give us a high-level commentary on these customers that I don't think you did a lot of business with over the last several years? Are you seeing an increased capture rate with large issuers? What was the contribution, if you can give us color on the 40% growth there in debit and credit from large issuers?

John D. Lowe
President, CEO & Director

Yes. Greg, thanks for the call out. We're happy to have you on our marketing team any time you want to join. But in all seriousness, we -- the large issuer base, I mean, we said this over time, we work with about half of them. You mentioned a couple of different names there. One of those we're actually doing metal with was part of our metal growth. I won't name names. But -- so very positive in terms of our relationships we have with the large issuers. We have been growing share over the last, I'd say, 5 years with the larger issuers. But I wouldn't comment specifically on their growth rates in Q4 or 2025. What I would say is just broadly the larger players in general, so go beyond the large issuers that are the names you're thinking of. Think of the credit union service organizations. We mentioned Velera this morning that we signed another 4-year deal with. I think of the large processors out there, there's a number of partners that we have that are fairly large that we also have been growing share with.

And so we're excited about our position in the debit and credit market. Our Secure Card Solution side between our card production, our personalization business, the acquisition of Arroweye really gives us a unique value proposition and allows us to continue to execute on our strategy and win share, not only in the large issuer market, but in the broader FI, fintech and other markets.

Craig Irwin
ROTH Capital Partners, LLC, Research Division

So my second question is about headcount, right? When I looked at your K, I saw you now have about 1,700 employees beginning 2026, it's up about 13% or a little over 13%, consistent with your revenue growth last year. Now that doesn't kind of point to leverage in the model. And I know there are a bunch of initiatives you were staffing up particularly on the technology side and some of these things with incredible long-term potential. Can you maybe flesh out for us where you would likely be hiring in 2026? And would you expect mid- to high single-digit growth consistent with revenue? Or do we potentially see a more tempered rate of hiring?

John D. Lowe
President, CEO & Director

So a lot of our hiring last year, when you just look at a headcount perspective, was through the acquisition of Arroweye, right? I mean they have, I don't know the exact number, I think it's 250 people roughly in Las Vegas. So a fairly decent sized business there. So you have to kind of take that into account, Craig. But if you went out and looked at who we're hiring and who we have hired over time, it has been predominantly in the go-to-market side to try to push our solutions further into the market, expand our go-to-market efforts as well as on the technology side within our Integrated Paytech segment.

So those are probably the 2 areas where we'll continue to invest in, and we continue to invest broadly in the business as we grow. But I think if you stripped out Arroweye, you'd realize we're definitely growing in the number of people that we have. But I wouldn't say we're not getting leverage out of the model. And you saw that in Q4, from our growth in Q4 and what we pushed to the bottom line.

Operator

Your next question comes from the line of Hal Goetsch with B. Riley Securities.

Harold Lee Goetsch
B. Riley Securities, Inc., Research Division

Questions on CapEx. CapEx was up from $8 million to the high teens, and you said it's going to be similar to that in 2026. Is this a number we should expect going forward? Or is this a number that might come back down after a 2-year investment period?

John D. Lowe
President, CEO & Director

Yes, that's a good question, Hal. I'd say it probably will come down in the outer years. It has grown quite a bit in '25 as we built out closed loop, we built out Indiana. But I'd say it's more on the physical side in '25 than more on the digital side in '26 and what we might expect in coming years. But Terra, do you want to add to that?

Terra Grantham
Interim Chief Financial Officer

Yes. Just to add to that, we did spend about $5 million in CapEx in 2025 on our factory -- new factory in Indiana. So that is going away, but we are replacing that with higher investments in our technology spend. So that is on the CapEx side to support the growth of our B. Riley Securities business and also to upgrade some of our other technology as well.

I will say that even with that CapEx spend, we are expecting similar cash flow conversion in 2026 as we had in 2025. So we're happy to be investing in the business and continuing to convert on the cash flow side as well.

John D. Lowe
President, CEO & Director

Yes. Goal is to drive leverage down even while investing so...

Harold Lee Goetsch
B. Riley Securities, Inc., Research Division

Could you share -- on the tax side, it seems like your tax rate is higher than most of the companies that follow that are mostly domestic. And I think you said over 30%, is that correct? And what was the cash flow impact -- free cash flow impact this year from the Big Beautiful Bill or tax change that might have lifted free cash flow this year? And what might be the impact next year from tax law changes to your free cash flow?

John D. Lowe
President, CEO & Director

Yes. Hal, we did get a slight benefit. I don't think it's a huge number. I think it's in the few million range. But just on the tax rate in general, I think the big impact this year was due to the Arroweye acquisition and integration costs that are not necessarily tax deductible. But Terra, I don't know if you have any comments?

Terra Grantham
Interim Chief Financial Officer

Yes. So we are expecting a benefit from -- between '25 and '26 from the U.S. budget bill of $3 million to $5 million from -- across '25 and '26. Just a reminder, though, that, that is a cash impact, and it doesn't impact our [ETR].

Harold Lee Goetsch
B. Riley Securities, Inc., Research Division

Yes. And a follow-up, last question for me on kind of modeling. Are you going to provide pro formas for the new 3 segments going back maybe at least quarters for 2025 that we can project trends and margins off of?

John D. Lowe
President, CEO & Director

Yes. Hal, I think we did. I think there's a filing this morning, if I'm not mistaken. It has 2025 quarters as well as the full year.

Operator

As there are no further questions in the queue, I would now like to turn the call back over to John Lowe for closing remarks.

John D. Lowe
President, CEO & Director

Thanks, operator. Well, first, I'd like to thank all of our CPI employees for what they accomplished in 2025 and their ongoing commitment to serving the company, our customers and executing on our strategy to win in the market. I hope everyone enjoyed learning more about CPI's evolution this morning. We're proud of our 2025 and year-end performance, and we look forward to sharing more on the progress in future calls. Thank you all for joining, and we hope you have a great day.

Operator
Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.