Presentation

Operator

Good morning, everyone, and thank you for participating in today's conference call to discuss Dave's financial results for the fourth quarter and full year ended December 31, 2023. Joining us today are Dave's CEO, Mr. Jason Wilk; and the company's CFO, Mr. Kyle Beilman. By now, everyone should have access to the fourth quarter and full year 2023 earnings press release which was issued earlier today. The release is available in the Investor Relations section of Dave's website at https://investors.dave.com.

In addition, this call will also be available for webcast replay on the company's website. Following management's remarks, we'll open the call for your questions. Certain comments made on this conference call and webcast are considered forward-looking statements under Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. These forward-looking statements are also subject to other risks and uncertainties that are described from time to time in the company's filings with the SEC. Do not place undue reliance on any forward-looking statements, which are being made only at the date of this call. Except as required by law, the company undertakes no obligation to revise or publicly release the results of any revision to any forward-looking statements.

The company's presentation also includes certain non-GAAP financial measures, including adjusted EBITDA and supplemental measures of performance of our business. All non-GAAP measures have been reconciled to the most directly comparable GAAP measures in accordance with SEC rules. You'll find reconciliation charts and other important information in the earnings press release and Form 8-K furnished to the SEC.

I would now like to turn the call over to Dave's CEO, Mr. Jason Wilk.

Jason Wilk
Co-Founder, CEO, President & Chairman

Thank you, and good morning, everyone. We generated exceptional results in 2023 and surpassed our guidance on all metrics, exceeding both our original guidance from the beginning of last year as well as our increased guidance in Q2 and Q3. Dave had a record fourth quarter and most importantly, achieved profitability, having generated $10 million of adjusted EBITDA and positive GAAP net income for the fourth quarter. Further, we accelerated revenue growth while simultaneously lowering operating expenses and leaning into the operating leverage inherent in our business model.

I'd like to start the call by reflecting on Dave's journey. We launched in 2017 with a mission to build products that level the financial playing field. At the foundation of Dave, we hold the belief that technology can be used to revolutionize the cost and access of credit and banking. By embracing big data and without relying on legacy credit bureaus, we experienced rapid product market fit for our first product ExtraCash, offering members instant and interest-free credit to cover gas and groceries. This delivered highly efficient growth over the next several years before turning profitable in 2019.

We then began strategically investing in our digital-first Dave checking account in 2020 as we needed to create natural synergies with ExtraCash and that our target market was in significant need of affordable banking services. In mid-2022, we began to focus on the levers that will drive sustainable improvements in the unit economics of our business including enhancing member lifetime value, expanding variable margin, optimizing our marketing investments and driving operating leverage from our fixed cost structure. I'm proud to say that we delivered on each of these objectives and executed on our profitability goal.

Compared to Q2 2022, our variable margins are up 2,200 basis points. Our CAC has decreased by over 50% and we have grown revenue by 60%, while reducing our fixed expense base. Moreover, we further expanded member lifetime value through stronger retention and the growth of our banking product as a natural complement to our core ExtraCash product. Though still in the early innings of our efforts, we have also continued to find avenues to deepen our relationships with members such as with direct deposit. These were the key levers which solidified our path to profitability several quarters ahead of schedule. And while we continue to make strategic investments in the growth of our business, we expect the company to remain adjusted EBITDA profitable going forward.

Importantly, we believe the core values that got us here today will be the same core values that enable us to grow profitably from here and expand the impact we have in the financial lives of our everyday Americans. Foundational to these core values is being deeply member-centric and committed to furthering our mission to build products that level of the financial playing field.

With that said, I'd now like to dive into the quarter and our progress against our growth strategy of acquiring new members efficiently, engage them effectively with interest-free credit and deepening our relationship with them via Dave Card banking engagement. Acquiring members efficiently is a major differentiator for Dave. We did this especially well throughout the year as we grew our member base while reducing marketing spend. Our ExtraCash short-term liquidity offering continues to resonate with consumers and are largely millennial and Gen Z target demographic, who use our ExtraCash product for essential staples, such as gas and groceries. This demographic has traditionally been difficult for incumbent banks to reach cost effectively, and our marketing efforts are bolstered by strong word of mouth leading to a consistent organic member acquisition.

In the fourth quarter, we added 683,000 new members at a CAC of $15, which is the lowest quarterly CAC we've achieved since the beginning of the pandemic in the second quarter of 2020. We attribute the strength of our CAC in the fourth quarter to the brand refresh and creative investments we made in mid-2023 and a continued push to drive efficiency, which led to a 14% reduction in CAC quarter-over-quarter and 12% year-over-year. CACs have remained efficient in the first quarter of 2024, typically the softest period for marketing due to tax refund supporting our member base and liquidity needs, thereby moderating response rates through our advertising.

The second pillar of our growth strategy is to drive engagement of MTMs with extra cash engagement being the primary starting point of our member journey. In the fourth quarter, our monthly transacting member base grew 9% sequentially and 11% year-over-year based on solid growth amongst Dave Card, ExtraCash and subscription monthly actives. In the fourth quarter, we successfully transitioned our $1 monthly subscription program to a new billing system, which resolved a temporary headwind to monthly transacting member engagement in Q2 and Q3 and gives us the flexibility to pursue expanded subscription opportunities going forward.

In Q4, we also achieved a significant company milestone of disbursing over $1 billion per quarter in ExtraCash advances to our members representing 11% growth from 3Q and 29% growth from last year. We achieved this by both growing our base of ExtraCash active members and by more effectively underwriting these members for higher advances without compromising on our credit performance, which I'll get into in a moment.

Higher advance sizes, combined with our new percent-based express fee structure we fully implemented in early Q4 enabled us to grow ARPU 4% quarter-over-quarter. Further ExtraCash product enhancements, some of which are currently in testing, give us the confidence we can continue to grow monetization moving forward. It's also worth reinforcing that the ExtraCash product structure is highly scalable allowing us to grow originations without the need for a sizable capital-intensive balance sheet or take on significant credit risk exposure at any one point in time.

Even with $1 billion in ExtraCash originations in Q4, our net receivables balance was only $113 million at quarter end due to the short duration high velocity nature of the product. To expand on the topic of credit performance, our 28-day delinquency rate in Q4 has once again reached a record low, improving 139 basis points year-over-year to just 2.19%, despite 29% growth in origination volume. The ongoing investments we have made in our proprietary AI-enabled risk management engine which we refer to as cash AI continue to bear fruit. The fact that we have seen record lows in 28-day delinquency rates and overall loss performance in both the third and fourth quarters, while most other consumer finance asset classes are exhibiting marked credit deterioration as a testament to the effectiveness of cash AI.

As mentioned on prior calls, we typically experience both the lowest delinquency rates and the softest demand for ExtraCash during the first quarter, given the additional liquidity provided to members from tax refunds. While we expect the seasonal pattern to recur in Q1 of this year, we are well versed in managing business performance and calibrating our marketing spend as the tax season unfolds. Finally, to discuss the third pillar of our growth strategy of deepening our relationships with members by driving top of wallet spending behavior through direct deposits. Our approach has been to leverage ExtraCash to drive cross attach to the Dave Card by making the ExtraCash funds available more quickly and inexpensively is sent to the Dave Card. This is an efficient way for us to drive trial with the Dave Card, an important step in building the trust required to win direct deposits.

We made solid progress on this trial-building strategy throughout the year with cross attach rates from ExtraCash into our Dave Card reaching approximately 50% among our ExtraCash actives, driving Dave Card spending growth throughout the year. In Q4, spending volume reached $369 million, a 41% year-over-year increase and 8% sequentially. With direct deposit penetration remaining fairly consistent quarter-over-quarter, average transactions per MTM remained roughly flat sequentially at 6.4%. We're still in the early innings of winning direct deposit and top of wallet spending behavior with our members, which is the primary strategic focus of ours for 2024. We remain intent on this opportunity since on average, members generate 5x to 6x higher banking ARPU once we acquire a direct deposit relationship. As a result of our solid progress within both ExtraCash and Dave Card engagement, we recorded a 9% increase in ARPU in fourth quarter year-over-year and a 2% increase sequentially highlighting our ability to continue to expand monetization of our monthly transacting member base.

We remain focused on identifying and executing on additional ARPU opportunities for our business throughout the year. In summary, 2023 was a pivotal year for Dave. Not only did we grow our business considerably, but we did so while reducing expenses, expanding margins and delivering greater value to our members through consistent product enhancements. We feel strongly about the potential of our credit-first acquisition model to drive ExtraCash engagement while deepening cross attach into Dave banking and a broader top of wallet spending relationship.

Our 2023 results showcases winning formula in its early innings and highlight our team's ability to execute and deliver on its goals. Entering 2024, we believe we have a clear road map to continue expanding profitability while still investing in our business to support long-term growth. We look forward to delivering on our goals for both Dave members as well as our shareholders as we solidify our position as a superior banking solution for everyday Americans.

With that, I'll turn the call over to Kyle to take you through our financial results. Kyle?

Kyle Beilman
CFO & Secretary

Thank you, and good morning, everyone. As Jason mentioned, our fourth quarter results represent new high watermarks across nearly all of our key metrics. As you may recall, we raised our guidance during the third quarter to account for our year-to-date outperformance. During the fourth quarter, we continued to execute well, enabling us to exceed our guidance and achieve adjusted EBITDA and net income profitability for the period. We continue to unlock material operating leverage by driving higher revenue and variable profit, largely through expanded ARPU and member retention while also improving our cost structure through efficient marketing spend, strong credit performance and the optimization of our variable and fixed costs.

Now to dive a little deeper into our results. Total GAAP revenue in Q4 was $73.2 million, up 23% from Q4 of last year. Revenue growth was primarily driven by an 11% increase in MTMs and a 9% increase in non-GAAP ARPU. The MTM growth was driven by our conversion-focused member acquisition strategy in addition to the significant improvements in member retention we achieved throughout the year. Increases in ExtraCash engagement and the growth in Dave Card spend led to the uplift in ARPU. Non-GAAP variable profit in Q4 increased 80% to $45.9 million, representing a 61% margin relative to our non-GAAP revenue, up approximately 2,000 basis points from Q4 of last year.

The sustained increase in variable margin throughout 2023 was driven by ongoing improvements we've made to our variable cost structure. A significant portion of this relates to our 2023 focus on vendor stack efficiency as we successfully optimize our usage of the payment networks and renegotiated contracts with several key vendors. Credit performance also continued to improve, which had a positive impact on variable profit. The ongoing development and optimization of cash AI has allowed us to reduce credit losses while also generating higher revenue per advance and lowering credit losses.

Moving to fourth quarter operating expenses. Our provision for credit losses decreased 28% to $14.5 million compared to $20.2 million in Q4 of last year. As a percentage of ExtraCash originations, the provision declined to 1.4% in the fourth quarter compared to 2.5% in the year ago period. This decrease in loss provision relates to the ongoing underwriting improvements we've made to cash AI that I just referenced and aligns with our outperformance on a 28-day delinquency rate for Q4. As Jason mentioned, compared to the fourth quarter of last year, our 28-day delinquency rate improved by 139 basis points to 2.19%, while we grew originations by 29% to surpass $1 billion in a quarter for the first time in our company's history.

Processing and servicing costs during the fourth quarter decreased by 10% to $7.5 million compared to $8.3 million in the year ago period. As a percentage of origination volume, processing and servicing costs improved roughly 30 basis points to 0.7% compared to 1% in the year ago period. We believe these gains are sustainable, driven by technology investments we've made in our payments infrastructure and improved contractual terms with key vendors. Advertising and marketing expenses decreased 16% to $10 million during the fourth quarter compared to $11.9 million in the year ago period.

Since Q4 of 2022, we have reduced CAC by 12% as we deployed conversion-focused marketing spend supported by channel and creative optimizations, the long-tail marketing investments made during the second quarter of 2023 and ongoing improvements to our reporting and attribution infrastructure. During the first quarter, which is typically the softest quarter for marketing efficiency given the tax refund dynamics, we plan to be situationally efficient with reduced marketing spend in order to help offset some of the seasonal softness in demand for ExtraCash, as Jason noted earlier.

Compensation expense was $23.5 million in the fourth quarter compared to $22.1 million in the year ago period. A marginal increase relative to the 23% growth in GAAP revenue exhibited over the same period. As a percentage of GAAP revenue, compensation expense declined from 37% in Q4 of 2022 to 32% in Q4 of 2023. We've also made investments to further leverage AI within our ecosystem to build more scalability into our operating model. We recently rolled out Dave GPT, our AI chatbot, which has produced very solid initial results including reducing member success related costs by 13%, while also increasing contact-related NPS scores by 28% in just its first 3 months.

This is another example of how we're utilizing cutting-edge technology to improve member experiences while also creating more operating efficiency within our business. While we believe that we can continue to grow and achieve operating leverage without needing to make any material additions to our head count, we plan to make carefully calibrated investments in product development and data capabilities throughout 2024.

These investments will be designed to bolster our long-term growth trajectory while maintaining a lean and disciplined approach to our expense management. Other operating expenses were $15.8 million in the fourth quarter compared to $18 million in the year ago period, representing a year-over-year decline of 12%. This improvement is based on a reduction and rationalization of our fixed costs, which continues to amplify the operating leverage we achieved throughout 2023. Other operating expenses also benefited from sustainable improvements we've made to some of our key variable costs within this line item. More specifically, we renegotiated 2 key vendor contracts that support our banking product, the first in Q1 of 2023 and the second in Q4 of 2023 where we expect to benefit from a full year's impact of these changes in 2024.

GAAP net income for the fourth quarter improved to $0.2 million compared to a GAAP net loss of $21.5 million in the fourth quarter of 2022. Adjusted EBITDA for the fourth quarter was $10 million compared to a loss of $12.8 million during the year ago period. As Jason mentioned, this improvement was due to a combination of revenue growth and variable margin expansion, rationalize marketing spend and lower tax and tight cost controls across the business. We are very proud that Dave has achieved profitability and has done so sustainably with disciplined execution and a long-term value-maximizing orientation. So while our growth trajectory will not be linear, we expect Dave to remain adjusted EBITDA profitable going forward.

Now turning to the balance sheet. As of December 31, 2023, we had approximately $157 million of cash and cash equivalents, marketable securities, investments and restricted cash compared to $171 million at September 30, 2023. As of year-end, our net receivables balance was $113 million, an increase of roughly $16 million sequentially. The amount drawn on our credit facility remained at $75 million as of the end of Q4 as we continue to rely on our balance sheet cash in the fourth quarter to fund ExtraCash originations versus our credit facility.

Subsequent to year-end, we announced the repurchase of a convertible note that we issued to FTX Ventures with an original principal balance of $100 million. Dave repurchased the note for a discounted purchase price of $71 million or 67% of the $105.5 million outstanding balance as of December 31, 2023, which equates to approximately a $35 million discount relative to par value. Accounting for this repurchase as well as the impact from our operations and the increase in ExtraCash receivables in January, our cash and cash equivalents, marketable securities, investments and restricted cash as of January 31, 2024, was $75.3 million. Our decision to repurchase the note was based on the confidence we had and continue to have in our financial outlook and capital position, as well as the compelling return profile of the transaction.

As we have mentioned in the past, we continue to believe that Dave is well positioned to achieve its growth and profitability objectives without the need to raise additional equity capital and believe we have ample liquidity to execute on our growth plan moving forward.

Now turning to guidance. We expect full year 2024 GAAP revenue to range between $305 million and $325 million, representing growth of 18% to 25% when compared to 2023. Please note that we are now providing our revenue guidance on a GAAP basis rather than the non-GAAP revenue basis to which we have guided historically. We also expect 2024 adjusted EBITDA to range between $25 million and $35 million, reflecting a $35 million to $45 million improvement relative to 2023. We also expect our adjusted EBITDA to remain positive on a quarterly basis going forward, we expect that the first quarter will experience the seasonal impacts from tax refunds, which both Jason and I mentioned earlier in the call.

Additionally, we are forecasting modest impact to our CAC given that this is an election year, although we have not seen that impact thus far in the first quarter. Finally, as I noted, we plan to make modest investments in product development and data capabilities in 2024, which have positioned us for long-term value maximizing growth in the years ahead. We believe we have a defensible track record of being disciplined and rigorous in making strategic investments. First, with ExtraCash and then with Dave Card, which have both become accretive to our business model.

I will now hand it back over to Jason to conclude our call.

Jason Wilk
Co-Founder, CEO, President & Chairman

Thanks, Kyle. 2023 was an incredible year for our company. I appreciate the hard work and dedication from the team in getting us at this point, and I look forward to another strong year in 2024.
Operator, we can now open the call for questions.

Question and Answer

Operator
[Operator Instructions] I'm showing no further questions at this time. And this concludes today's conference call. Thank you for participating. You may now disconnect.