Presentation

Operator

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Dave's financial results for the second quarter ended June 30, 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 second quarter 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 remarks, we'll open the call for your questions. Certain comments made on this conference call and webcast are considered forward-looking statements under the 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 as of 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 as 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 afternoon, everyone. I'm encouraged by the progress we made in the second quarter as we continued to execute on our strategic and financial objectives and delivered another strong quarter of revenue growth. GAAP revenue increased more than 30% for the fourth consecutive quarter despite reducing marketing spend by 28% year-over-year. This consistent revenue growth, coupled with our sustained margin expansion and operating leverage enabled us to more than halve adjusted EBITDA loss for the second consecutive quarter.

Our ExtraCash product continues to be a core driver of our business -- during the quarter, origination volume reached record levels, while our 28-day delinquency rate once again improved on a year-over-year basis, continued enhancements to our AI underwriting model and origination processing efficiencies have been critical components of driving non-GAAP variable margin up to 53% from the low of 39% in Q2 of last year.

We also continue to drive strong engagement with the Dave's Debit Card. As debit spend and transactions pet MTM reached record levels for the quarter. Banking revenue grew over 120% and now accounts for over 10% of revenue as we commit to becoming a full banking solution for our customers. Our record Dave Card engagement reflects the progress we have made to integrate our products and become the primary destination for all of our members' banking needs.

We remain focused on continuing to execute our strategy of becoming a superior banking product for everyday Americans. Demand for our product is strong and growing as further supported by the inflationary and interest rate pressures which our everyday American members face. We expect to continue delivering more member value through ongoing product development while further strengthening our attractive unit economics. We remain on track to

become adjusted EBITDA profitable in 2024, consistent with the timeline we committed to earlier last year while maintaining ample liquidity to do so without needing to raise additional equity capital.

Now to dive a little deeper into the quarter and our progress against our strategic growth initiatives of acquiring new members efficiently, driving their engagement and deepening the underlying relationships.

Diving into our first objective, we continue to drive member growth while decreasing our marketing spend relative to the prior year. As discussed last quarter, we are aiming to acquire banking customers at scale by marketing ourselves as the neobank that provides people with instant access to short-term liquidity without worrying about overdraft fees. While we continue to reduce marketing spend when compared to last year, -- as mentioned last quarter, we ramped our marketing spend back up relative to Q1 to capitalize on the seasonal demand pattern for ExtraCash.

In the second quarter, we added 739,000 new members, up 26% relative to last quarter. Our customer acquisition costs increased modestly in Q2 given how we typically pull back on marketing spend in the first quarter. However, we reduced CAC by 31% on a year-over-year basis, which is a more appropriate comp given seasonal dynamics. Our ability to drive these marketing efficiencies is the result of our continued product enhancement and channel optimization over the last year. Moreover, we made significant marketing investments at the corporate level, including a full website and branding refresh as well as costs to produce TV and radio advertisements that began airing in the third quarter, none of which contributed to actual member acquisition in Q2.

Excluding the aforementioned corporate marketing investment, CAC would have declined by roughly 38% year-over-year. We anticipate these longer-tail investments will contribute to acquisition and revenue growth in the second half of the year as we continue to capitalize on the strong demand for our products.

Our second key objective is to enable members by providing them with instant access to up to $500 of ExtraCash using our proven AI-driven underwriting models.

Our monthly transacting member base increased 26% year-over-year to $1.9 million driven by our engagement focused marketing, the rollout and optimization of ExtraCash advances up to $500, underwriting improvements which enhance retention and the broader rollout of our Dave Card offering. On a sequential basis, we saw a meaningful increase in higher ARPU ExtraCash and Dave Card MTMs, which was offset by a decline in paid subscribers due to our migrating off of a legacy subscription billing system and onto our own newly built platform which better positions us to launch new subscription offerings in the future.

As Kyle will touch on in a moment, our 2Q non-GAAP revenue increased 3% quarter-over-quarter and the modest declines in MTMs was more than offset by a 5% increase in ARPU. In terms of extra cash performance, our origination volume during the quarter increased 43% year-over-year to $867 million, reflecting strong continued demand in addition to higher ExtraCash advance limits relative to last year. On a sequential basis, as alluded to last quarter, ExtraCash originations ramped in the second quarter based on the growth in extra cash MTMs and demand rebounded from the seasonally slow tax refund season in Q1.

Despite the solid growth our ExtraCash advance net receivables portfolio totaled just $89 million as at quarter end, underscoring how we can serve a vast number of everyday Americans without the need for a sizable and capital-intensive balance sheet. Our AI- based underwriting model continues to provide competitive advantages in credit underwriting and risk management. Additionally, our ExtraCash advances help everyday Americans bridge gaps between paychecks for things like rent, groceries and gas. The essential nature of these expenses helps to support ExtraCash credit performance as members do not want to lose this critical source of liquidity for their everyday lives.

Our 28-day delinquency rate improved 84 basis points compared to the same period last year, even against a more challenging economic backdrop. This equates a 23% improvement in credit performance over a period where we increased ExtraCash origination volume by 43%, which we believe bodes well for the durability of our variable margin as we scale.

Moving to our third objective. We continue to focus on creating a deeper payments relationship with our members by

accelerating adoption of our Dave Debit Card. We are ultimately working towards becoming a primary destination for our members to deposit their paycheck, putting Dave at the center of their financial lives.

Utilizing ExtraCash as a conversion plan for initial card usage, we are making meaningful progress in growing Dave Card spend. The Dave Card is seeing increased adoption given the synergies we create with our ExtraCash offering. Dave Card engagement is also consistently improving as evidenced by the 27% year-over-year increase in average transactions per MTM in Q2 and 77% increase in Dave Card spending volume, which was another record quarter. These results indicate that our strategy to deepen customer relationships is paying dividends with an exciting product road map focused on improving cross attach rates and increasing engagement to drive growth.

Overall, we're tracking well against our strategic growth initiatives and our commitment to turning adjusted EBITDA profitable in 2024. We're delivering significant value for our members, solving their fundamental pain points and building loyalty that enables us to deepen our relationship with them. We have an innovative road map that I'm confident will allow us to deliver even more member value. We're doing this while building a durable and defensible business model with strong growth and attractive unit economics with significant upside from here.

Finally, just before the start of today's call, we announced that former Snap Inc. Chief Strategy Officer Imran Khan, has acquired a 2.5% stake in Dave as of today, through investment funds in which he manages, via a secondary market transaction. He will also join Dave's Board of Directors effective immediately. Khan brings deep experience and knowledge to Dave as a leader in operations, ad sales, partnerships, capital markets and corporate strategy at both public and private companies. He was also integral in two of the largest tech IPOs in history, Snap and Alibaba, and a consistent track record of catalyzing growth and scale at innovative companies. We are honored to have such an esteemed business leader like Imran take a position in Dave and join our Board of Directors. With that, I will turn the call over to Kyle to take you through our financial results. Kyle?

Kyle Beilman
CFO & Secretary

Thank you, Jason, and good afternoon, everyone. We are pleased to report that our second quarter results were in line with our expectations and consistent with the plan laid out in our last conference call. Non-GAAP variable profit growth was more than double our revenue growth, thanks to the sustained improvements we have made to credit performance and our broader variable cost structure. And once again, we more than halved adjusted EBITDA loss compared to the prior year as we continue to make progress on our profitability goals.

Now turning to our results. Total GAAP revenue in Q2 was $61.2 million, up 34% from Q2 last year. Our revenue growth was driven largely by continued increases in our monthly transacting member base and improved MTM monetization, including deeper Dave Card engagement. Non-GAAP variable profit in Q2 increased 78% to $32.9 million representing a 53% margin relative to our non- GAAP revenue compared to a 39% margin in the year ago period. The increase in variable margin was primarily due to structural improvements we have made to our payments infrastructure, improved contractual terms with key vendors and ongoing optimization of our AI-based underwriting engine, which continues to produce superior credit performance against a challenging macro backdrop. The sustained increase in non-GAAP variable margin has enabled us to increase our variable margin guidance for the year as highlighted in our earnings release this afternoon.

Moving to our second quarter operating expenses. The provision for credit losses was $15.9 million compared to $13.9 million in the year ago period. As a percentage of ExtraCash origination, the provision declined to 1.8% in the second quarter compared to 2.3% in the year ago period. The increase in overall provision is a result of significantly higher originations, while the provision as a percent of originations continues to decline as we further improve our underwriting models, which has translated into better 28-day delinquency rates and ultimately, credit losses.

In Q2, our 28-day delinquency performance improved by 84 basis points year-over-year, while we grew originations by 43% to $867 million. We continue to expect delinquency rates and our overall provision for credit losses as a percentage of ExtraCash originations to remain well below 2022 levels as we continue to make improvements to our underwriting.

Processing and servicing costs during the second quarter decreased 5% to $7.2 million compared to $7.6 million in the year-ago period. As a percentage of our origination volume, Processing and Servicing costs improved by more than 40 basis points to 0.8% compared to 1.3% in the year-ago period. These gains were driven by improvements that we have made to our payments infrastructure as well as better pricing from key vendors that we began to benefit from in Q3 of last year.

Marketing and acquisition expense decreased 28% to $15 million in the second quarter compared to $20.8 million in the year ago period. As Jason mentioned earlier, excluding $1.4 million of corporate marketing spend related to a brand refresh as well as the development of TV and radio advertising creative that will air in the third quarter and beyond, customer acquisition costs would have declined by roughly 38%. Strong demand combined with ongoing product enhancements and channel optimization enabled us to spend 28% less on marketing while acquiring 33% more new members versus the year-ago quarter. On a sequential basis, as we alluded to you last quarter, we ramped marketing spend to take advantage of seasonal demand for ExtraCash coming out of tax season.

Compensation expense decreased 39% to $23.9 million in the second quarter compared to $39.1 million in the second quarter of 2022. The reduction was primarily due to restricted stock unit grants that were made in the second quarter of last year, when we made a large catch-up grant to employees after not issuing grants in the period leading up to the close of the de-spac transaction. Excluding the impact of stock compensation expense, compensation increased 6% to $17.3 million or 28% of non-GAAP revenue compared to $16.3 million or 35% of non-GAAP revenue in the year ago quarter, which demonstrates the growing operating leverage we are achieving as we scale.We continue to believe that we can execute on our growth plan without needing to make any material additions to our head count.

GAAP net loss for the second quarter improved to $22.6 million compared to a net loss of $27.1 million in the second quarter of 2022, representing a 17% improvement. Adjusted EBITDA loss for the second quarter was $13.1 million compared to a loss of $28.5 million during the year-ago period, representing a 54% improvement. Excluding a $4 million legal settlement charge related to our 2020 data breach expensed during the second quarter, adjusted EBITDA loss would have improved by nearly 70% to $9 million.

Now turning to the balance sheet. As of June 30, 2023, we had approximately $178 million of cash and cash equivalents, marketable securities, short-term investments and restricted cash compared to $196 million as of March 31, 2023. The decrease was largely driven by growth in ExtraCash receivables funded with existing balance sheet cash. As of quarter end, our net receivables balance was $89 million, an increase of roughly $9 million sequentially. The balance of our Credit facility was $75 million as of the end of Q2, which is flat relative to the end of the prior quarter. We expect to continue to rely on our balance sheet cash to fund extra cash originations in the near term as opposed to our debt facility, given the cost of capital difference relative to the returns on corporate cash.

Now turning to our outlook. Given our significant increase in non-GAAP variable margin this year and the sustained improvements that we've made to our variable cost structure, we are raising our 2023 variable margin guidance to a range between 47% and 51% which is up 400 basis points relative to our prior guidance of 43% to 47%. We continue to expect our non-GAAP revenue to range between $235 million and $260 million for the full year 2023.

With respect to our primary profitability metric, we are also reiterating adjusted EBITDA guidance for the year, which calls for a loss ranging between negative $50 million to negative $35 million reflecting a 43% to 60% improvement relative to 2022. This guidance includes the impact of the aforementioned $4 million one-time legal settlement charge taken in the second quarter of this year. Ultimately, we believe we are well positioned to achieve our full year guidance and continue to have strong conviction in turning adjusted EBITDA profitable in 2024.

I'll now turn it back over to Jason for his closing remarks.

Jason Wilk
Co-Founder, CEO, President & Chairman

Thank you to everyone for joining us on the call today as well as the Dave team's continued belief in our plan to become a superior banking product for everyday American. I look forward to highlighting further progress against our objectives next quarter.

Operator, we can now open the call for Q&A.

Operator

As there appear to be no questions in queue, this does conclude today's conference call. Thank you for participating. You may now disconnect.