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<<Devin Ryan, Analyst, JMP Securities LLC>>

I'm Devin Ryan, Director of Financial Technology Research here at JMP Securities. Thanks for joining us. I'm looking forward to this conversation today with Dave. We have Dave's management team here, Jason Wilk, who is CEO; and Kyle Beilman, who is a CFO. Dave just reported earnings. So, I think it's a great timing to catch up with you guys.

So first off thank you for coming and maybe just to level set the conversation give a little bit of background about Dave, and what Dave does and then the founding as well and how the business was started?

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Yeah, yeah. And thanks for having us Devin, and this is great conference.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Thank you.

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

So the founding story of Dave, we wanted to really disrupt overdraft fees as they were overly expensive at traditional banks costing customers $38 every time they were going negative on their account. So Dave set out to become, and we are now one of the leading U.S. neobanks offering customers a free checking account that comes with our debit card. And our flagship feature that differentiates us from traditional incumbents is our product called ExtraCash, which as opposed to traditional overdraft. We offer customers an underwritten up to $500 cash advance at no interest, no credit check, which will use an AI underwriting base to approve customers.

That product has been a huge boon for us to acquire customers at scale very inexpensively, which we can cross attach those members into our banking business at scale. We have over 8 million members today, about 2 million monthly transacting members that are using the card or using our advanced service. And we are consistently pioneering new features in the industry from underwriting to new features.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Terrific. Maybe just start with earnings. So you guys just reported looked like a pretty good end of the year for you guys. And so maybe just for people that didn't catch it some of the highlights from earnings and kind of what you were most excited about?

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Yeah, look, I think it was a fantastic year for the company. It was our first full year as a public business and I think I'm really proud of our team for pulling this together. It wasn't a lot of work, certainly been a tumultuous market for the company and for fintech in general. But I think all of the concerns that the market generally has, we seem to be quelling. We had great growth quarter. We grew 45% year-over-year. We grew about 90% year-over-year on our debit card business, which is a huge strategic area for the company. And most importantly, we grew origination significantly on the ExtraCash business and we saw default rates actually go down quarter-over-quarter and year-over-year.

So everything we're seeing in the economy is, great for our business. Now we do very well in every kind of economy except for a heavy stimulus environment given our main go-to-market is the free checking account that comes with the ability to get the cash advance whenever you want.

<<Kyle Beilman, Chief Financial Officer>>

And just to add to that, we're making significant strides on our path to profitability from an adjusted EBITDA perspective, we cut losses about 60% in Q4 versus Q3. So if just feeling very good about the profitability trajectory of the business and we reiterated our timeline to profitability in 2024. So feeling very confident on just our liquidity position, the fundamentals of the business and just getting back to profitability.

I think we are one of the unique, I always like to point this out, because not a lot of people in consumer fintech can say this, but our business was profitable in 2019 in the early parts of 2020, and we're marching our way back towards that and we feel we have more than enough capital to get there and I'm feeling very optimistic.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yeah, great. I'll come back to that Kyle, maybe just on the business and digging in a little bit, so the ExtraCash advances, what would you say, because there's a lot of products or at least the perceptions, there's a lot of products in the market, but what separates this product from other consumer finance platforms?

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Well, I think the fact that we pair our cash advanced offering with a checking account, I think is already a pretty unique offering. The other feature that makes it differentiator is our underwriting, which allows someone to get approved for the cash advance within minutes of downloading our app and joining. Most banks, most and also neobanks that offer an overdraft service require you to be a direct deposit member or be a member of their bank for a certain amount of time. I think like a Bank of America requires you to be a member of their bank for a couple years before they'll give you access to any kind of short-term liquidity, Dave, you can download our app, have the money in your account within minutes and you can access it now instantly using the Dave Card. I think that sets us apart.

The other fact is that our underwriting, I think we we're developing a pretty significant moat just by the sheer volume of advances we've given out. So, we announced yesterday we've hit 65 million ExtraCash advances we've get given out since we launched the company in 2017. And when we underwrite somebody for a cash advance, we are using external bank account data and transaction data to make that credit decision. It's not based on legacy FICO whatsoever. The engine is looking at someone's transaction history from the last three to 12 months, which is a thousands of transactions, thousands of transactions times 65 million ExtraCash advances given out. Just gives us billions of data points we can use to further develop the model and we think gives us a huge leg up if we're going to move into future credit products as well.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yeah. Maybe talk a little bit, because that's obviously kind of the secret sauce proprietary dynamic here. What drove you guys to build that and what's the underlying, I guess, tech underneath, that makes that special?

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Well, we started out, it was really a pretty simple rules-based model. When we got the business going in 2017, it was a $75 cash advance that customers could get access to. And I think our loss rates in the first few months were about 25%. So, we were losing money, hand over fist as it's not an easy thing to underwrite. So, we developed our own engines to get a lot smarter. So it's looking at all kinds of factors that are looking at your different transactions, all your inflows and outflows, but the various places you go shopping and eat and all the things we think could be good inputs for the ultimately AI underwriting we've been developing for the last few years and it's impressive, we've seen origination sizes go up, and we've seen default rates actually go down considerably, some of our lowest numbers we've seen in history of the company.

<<Kyle Beilman, Chief Financial Officer>>

I mean, just to add to that, I think one of the benefits that we have is just real time visibility into the customer through the checking account data. So, we know where you work, we know where you shop and we know if you were supposed to get paid last week and by how much. And so if you miss a paycheck or things start to change in your sort of liquidity profile, we can take that information into consideration. And we're getting, like I said, that information in real time, which just really helps us manage risk in a very differentiated way from FICO based systems, which are much more of a lagging indicator on the kind of health of the customer.

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Yeah. That's just to add one more point, that's great for us, but it's also great for the customer, because we know exactly when someone gets paid, which is a huge leg up. I can only imagine, I get frustrated when my credit card company pulls my payment on the 15th of the month. I don't get paid on the 15th. So the fact that we know all the income data when someone gets paid is, is great for settlement, but it's also good for the customer.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yep. Okay. Great. I want to turn to Dave Banking and maybe just talk a little bit about how that fits new overall portfolio and the roadmap?

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Yeah. So Dave Banking is our primary product. I mean, we think of ourselves as a full-fledged neobank at this point. All of our customers have debit cards. Driving people to that that card to drive transaction revenue is the one of the biggest strategic pillars of the company at the moment. And what differentiates us from a traditional incumbent is that we can go out there and market to customers, Hey, you can down our app and you can get money in your accounts within minutes. That opportunity does not exist at any other incumbent. And we can use that messaging to drive a very inexpensive customer acquisition. And then we can cross-sell that person by giving them access to the money immediately with the card. Once we see someone trial the card, then our next step with the member journey is to get them to set up direct deposit. And now we have not only a direct deposit revenue customer, but they're still engaging with the ExtraCash solution as well.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yeah. Maybe just talk a little bit about the customer acquisition, how you guys have gone about it and the profitability picture of that?

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Yeah. So what's different about us, again, we're able to market the cash events on social media, places where we're can really talk about the liquidity challenges that the everyday consumer has between paychecks versus an incumbent that's out there marketing a standalone checking account. No one wakes up in the morning and is excited to open up a brand new checking account. Hence why the big banks and even our, our competition, their CAC is in the hundreds of dollars to get to a transacting member. For us, our CAC is about $20, and that alone just gives us a huge leg up. We have this acquisition engine and ExtraCash, which is driving all of our customers in the door cheaply, and we can cross-sell all those customers to start transacting on the card and gives us the lowest sort of transacting CAC for a banking customer in the industry, which, we feel very strongly about.

I think also what is an advantage there is that if we roll out any future products, we can do so with effectively a negative cap, because we have a very profitable engine at the front door of ExtraCash, which has great unit economics, a fast payback on customer acquisition cost, and anything we can do from there to cross attach people to the bank business is all gravy.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yeah. Can you just talk a little bit for people that don't know, like how you're making money on ExtraCash and the economics, what that looks like? Because it makes sense you've got this pillar and then you can expand beyond that. But talk a little bit more in detail about that.

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Yeah, so we built the ExtraCash monetization to be the most fair model, we could find in the industry, which is entirely optional fee structure for the consumer. There's no interest, there's no late fees at all with the product. Somebody can borrow from us and advance the money absolutely for free. The way they would do that is, they would connect an existing checking account, call it a Chase or a Wells Fargo get approved for, call it $200. And they have historically two options with that money. They can have the money sent to their Chase or Wells Fargo account via ACH, which takes about one to three business days entirely for free, or they can have the money sent to their Chase or Wells Fargo debit card for, call it a $3 to $5 fee.

We have a pretty significant attach rate to people who do opt into the faster payment and that's been a big monetization lever for the business. In addition to that, we also ask customers if they want to give us an optional tip. We were the first company to offer this in the industry. We thought it would be very fair for customers to pay what they think is fair for access to the model. Customers are used to paying $38 overdraft fees, so we figured the chances we might get a $2 or $3 tip was pretty likely and just happens our average tip is around $4. So it works out quite well for the customer who's saving money and it works out pretty well for Dave just given it's a nice additional free revenue stream for us.

Now with our big focus on driving transaction revenue, we give people a 50% discount on the instant processing fee if they send the money to the Dave Card, and that's led to transaction revenue growing in the business 90% year-over-year. And we think there's a lot of – a lot more levers left for us to drive more trial of the car using ExtraCash advances.

<<Kyle Beilman, Chief Financial Officer>>

I mean if you think about one of the bigger challenges that, most traditional or specifically checking account focused neobanks out there is, how do you drive that initial funding and trial event with the debit card? We have the ability to do that with our ExtraCash product. And so we incentivize customers to send their funds to the Dave Card just to drive that trial initial engagement and build trust when we're ultimately working towards that direct deposit opportunity. It's very hard to get someone to switch to direct deposit on day one. So we feel like this is a great stepping stone and building that level of trust that it takes to get to direct deposit through the approach that we've outlined.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yeah. Great. I'll come back to that in a minute, but I want to go back to the tips theme. Because I think that's something that is a little bit foreign to maybe people, in finance or in maybe in this room. So the same time you have a lot of history of the tips and so you're building that credibility. This is a real revenue stream that has durability to it. Like how, I guess one, how did that come about? I guess you gave a little bit of background there, but then two, is it like, how predictable is it when you're doing your budgeting and you're trying to think about where financials are going that's important and it feels like in the outside, maybe that's less certain, but you have history, so maybe talk about that and the durability of that revenue stream.

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Well, what gives us confidence about the durability is the fast duration of the payback. So the average customer's borrowing for a week or two at most, and we also have the high velocity of 65 million of advances. So, we have a lot of tape at this point to really feel confident that we can predict that revenue stream. And I think we've done a pretty good job making sure we're hitting our guidance, we've been giving out to the street and, tips are not the majority of our business, but it's significant enough that it matters and we think we can forecast it reasonably well.

<<Kyle Beilman, Chief Financial Officer>>

Yeah, I mean, just to add to that, I mean, we have very detailed, cohort economic models and the tipping behavior is very predictable. I mean, as you might imagine, we see pretty high levels of engagement right out of the gate. We see some deterioration of that over time, but asymptotes is a very healthy level that we're extremely comfortable with the unit economics around. So, I think it just gets back to the value exchange with the customer. They're used to paying pretty exorbitant fees for access to other sort of liquidity solutions. We're offering them something that's, fair and transparently priced and, I think it just fits into our overall brand and mission about aligning ourselves with the customer by allowing to them to pay what they think is fair. So but yeah, it's predictable and durable and, we feel like it's a good business model for us and works really well for the customer too. Yeah.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Great. Let's talk about the, the transaction activity and driving more transaction volume and making Dave kind of the primary card for your customers. Are you working with consumer brands? Like what are you – what are the avenues to really make this card stand out in the wallet and make it that kind of key card that people are using?

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Well, I think given most of our customers are responding well to our advertising, which is the checking account that gives you access to the cash advance, cash advance does dominate most of our marketing. So you'll see it on social media, Snapchat, TV, Instagram. We can show people in real life scenarios of gas, groceries night out, and that tends to be very resonant with the customers who want to come in and try out that product. So making the bank, making ExtraCash as best as possible with our card is a big part of the strategy. And in Q2, Q3 is when we really started out giving people the discount to get ExtraCash on our own card.

The next up in the lineup there is to really start trying different amounts. So even getting higher amounts if you start to engage further with the Dave Card, so your ExtraCash limit can go up almost making it like a pseudo kind of credit card to some extent. In addition to that, we also have cash back rewards, which we have been playing with, which does reasonably well, but hasn't been a massive Webber for us so far. And we also launched a product called Surveys a few months ago, which is a really interesting way for our members to earn money onto their Dave Card by taking branded surveys. And just in a few short months, members have earned over $600,000 and all that money originates onto a Dave Card, and that's via an exclusive relationship with a major survey company that's feeding us all the branded content.

Traditionally these work from home survey businesses, you have to go to some third-party website and get paid out on a PayPal or, like an Amazon gift card, and now people can get the money instantly after completing a survey and go use the $5 it is earned to buy food or whatever they want to do with the money. So that product's off to a really strong start and it's a great additional way for us to drive engagement that no other neobank or incumbent bank has in the country.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Great. Want to shift gears and talk a little bit about the macro environment and perversely actually seems like some of the pressures in the macro inflation maybe being one of the biggest ones has actually helped your business. So talk a bit about what the past years look like from the macro and how that's affected your business and also your end customers, how they're navigating this?

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Yeah, I think the macro, a few interesting things to point out. One for us, our customer fits into that record on low unemployment rate. This is not the tech worker that's using the Dave, the Dave product. This is the hourly worker, the paycheck to paycheck worker. This is a younger consumer out getting their start, which happens to be our primary audience. Most people are under the age of 32 that are using the Dave product at this point.

So, I'd say our customers are well suited, they're employed, even if they're not employed we do underwrite for unemployment and government benefits as well. So that also helps us quite a bit in effectively any economy except a stimulus economy where we are competing with the government on giving away money. Given that's our main value prop. Anything else to add there?

<<Kyle Beilman, Chief Financial Officer>>

No, I think just from like a risk management perspective, if you look across the consumer credit spectrum more broadly, a lot of people are starting to see, delinquencies tick up and we're just not experiencing that. Our quarter-over-quarter delinquency rates are down about 50 basis points and we grew originations to $800 million in Q4. So, we just feel like we have a very differentiated model, a durable customer base, and just something that works for us and works for the customer. It's just a great value exchange, so.

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Yeah, I think the other points to add there is that with big banks and credit card issuers or tightening their belts on underwriting, and I think during COVID there was a lot of in inflated credit scores happening given all the debt people were paying down. So the approval rate for cards ended up going up considerably and probably took out some of our TAM of people that were good customers that now are getting access to these other products. And I think if anything, the pressure to tighten belts is benefiting us given we're getting really high quality customers that we're maybe used to getting something else and now they're reliant on Dave and ExtraCash to fulfill their finance financing needs.

Say the last piece is, both I think macro driven, because there's a lot more demand with inflation for our services, but additionally with the pullback and things like crypto and just venture capital dollars in general, we are seeing CAC go down pretty considerably. So CACs down 30% between from Q3 of this year to now, I think that's a, pretty good testament to a lot of good things going on that we're doing, but also the macro is playing into our favor.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yeah. And in terms of the underwriting technology that you have has that it sounds like the, your core customers still feel pretty good about their financial health at the same time, like around the edges. Are there things where, it's catching whether there's an employment change or whatever it may be where you're kind of validating, that technology and maybe we're not kind of tipping on the credit side, but you're seeing things and catching things because of the technology you have under place it.

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

That's where that the fast turnover really helps in combination with the AI, the people are paying us back every eight to 10 days, the system's learning so quickly, what's going on with the economy incomes and out outflows of accounts or people making more, people making less? I just think there's a lot we can – a lot of leg up we have given the faster duration of the product.

<<Kyle Beilman, Chief Financial Officer>>

Well, yeah, and if you think about the spectrum of amounts too that, that we offer anywhere from $25 to $500 depending on the risk profile of the customer. I think where we've, just made a lot of improvements as a business is, sort of unlocking the right amount for the right customer based on, obviously what they need, but limiting our exposure and just optimizing the economics around customer risk. So that's where I think a lot of the innovation that we've built just allows us to better risk split and segment our customers based on things that may change within their profiles.

<<Devin Ryan, Analyst, JMP Securities LLC>>

In terms of just the product roadmap, it sounds like, I mean, you guys have a lot of opportunity just to ahead on the products that are already in the market and you're scaling, are there other things that are really complimentary ancillary that are not huge lifts to roll out or that are on the roadmap over the intermediate term for you?

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Well, I think on the most recent roadmap it we rolled out was our savings account called Goals, which helps people sort of round up into a savings account at the company and you can set up a different target you want for vacation, pay off your bills, et cetera, which has been a nice launch for us, surveys obviously just, I just mentioned that one. And I think the, where I think we can get excited about is using our underwriting to further get into different types of interesting credit products like a credit card.

We think we have a huge advantage given the cross attached opportunity for existing customer base means getting credit card customers at no additional CAC and our underwriting we think is best-in-class to help approve people that otherwise would not get approved for a card And do so quite profitably. So it's an area we are looking at. Yeah, I'm looking at future credit products.

<<Kyle Beilman, Chief Financial Officer>>

Yeah. It's not necessarily a new product per se, but just kind of getting back to the Dave Card strategy, just driving a lot of that existing traffic more and more towards direct deposit. The direct deposit customers that we do have spend about a $1000 a month on their debit cards generates about $15 of monthly ARPU and interchange there. So it's just a huge monetization lever for us as we continue down, that customer journey. So, we're really excited about that and that's, that product exists today. It's just about again, building trust and kind of driving, driving through that customer journey and getting the adoption.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yep. In the last minute here, I want to talk a little about the next year or two, obviously ambitions to get the business to cash positive big step, I think in earnings last night. So talk a little bit about kind of what the path looks like, over the next year or two here for the firm and, and financials and ability to manage expenses and how important that is versus the growth dynamic to hit some of these goals you guys have laid out in the market.

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Yeah, I think we, we look at profitability a couple ways. I think in the simplest form we laid out last night that it would, we're about $1.9 million monthly transacting members right now in the platform. We start to turn cash flow positive around $2.2 million to $2.4 million members. So this shows you how close we actually are to getting the company the profitability against what we perceive to be a pretty fixed overhead cost. We've got about 320-ish employees right now. We think that's pretty sufficient for us to filter, fulfill the product roadmap, including the existing roadmap and potential, a couple new products as well. So given that dynamic, it's a, we think a pretty conservative bet that the company gets the profitability in the near term with no additional capital needed.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Terrific. Jason, Kyle, thank you guys for doing this and please come back and give us the update. So thanks.

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Thanks a lot.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Thanks a lot. Thanks everyone. Thank you.

<<Jason Wilk, Co-Founder and Chief Executive Officer>>

Great.