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Dave Inc.

Third Quarter 2022 Earnings Conference Call

November 10, 2022

CORPORATE PARTICIPANTS

Jason Wilk, *Chief Executive Officer, President and Chairman of the Board*

Kyle Beilman, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Michael Falco, *JMP Securities*

PRESENTATION

Operator

Greetings, and welcome to Dave's Third Quarter 2022 Earnings Call.

As a reminder, this conference is being recorded.

This afternoon, Dave issued a press release announcing results for the third quarter ended November 10, 2022, which can be found at investors.dave.com.

We would like to remind you that during this conference call Management will be making forward-looking statements, including statements regarding expectations related to financial guidance, outlook for the sector and company, and the expected investment in growth initiatives. Please note these forward-looking statements are based on current expectations and assumptions which are subject to risks and uncertainties. These statements reflect the Company's views only as of today and should not be relied upon as representative of views as of any subsequent date, and Dave undertakes no obligation to revise or publicly release the result of any revision to these forward-looking statements in light of new information or future events.

These statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from expectations. For a further discussion of the material risks and other important factors that could affect our financial results, please refer to the Company's filings with the SEC, including its Form 10-K filed with the SEC on March 25, 2022, and subsequently filed quarterly reports on Form 10-Q.

In addition, during today's call, the Company will discuss non-GAAP financial measures, which they believe are useful as supplement measures of Dave's performance. These non-GAAP measures should be considered in addition to, and not as a substitute for or in isolation from GAAP results. You will find additional disclosure regarding the non-GAAP financial measures discussed on today's call in Dave's press release issued this afternoon and its filings with the SEC, each of which is posted on Dave's website.

The webcast and transcript of this call will be available on the Investor Relations section of the Company's website.

It is now my pleasure to introduce you to your host, Mr. Jason Wilk, CEO and Chairman of the Board. Thank you. Mr. Wilk, you may begin.

Jason Wilk

Thank you, operator. Good afternoon and thank you for joining us for our third quarter earnings call.

For today's call, I'll begin by providing some highlights on the quarter and then will recap recent progress on our strategy. After that I will turn it to Kyle , who will discuss our third quarter results in more detail as well as our outlook.

On to Q3 Highlights.

Dave's value prop of no-hidden fee banking with up to $500 of interest free ExtraCash continues to resonate with millions of hard working Americans, leading to another record quarter.

During the quarter, we reported record non-GAAP total operating revenue of approximately $58.6 million, representing an increase of approximately 41% year-over-year, driven primarily by growth in monthly transacting members based on stronger customer acquisition and retention as well as impressive growth of our Dave Card interchange revenue.

During the quarter, we added a record of more than 800,000 net new Members, while reducing CAC by 18% vs. the second quarter. We continue to demonstrate significant scale with approximately 8 million total Members as of quarter end.

In terms of engagement, we saw a record 1.8 million average monthly transacting members in the quarter, up 18% sequentially, and 26% year over year. Our Transacting Members completed a record 4.6 average transactions per month in Q3, representing 105% growth vs. 3Q20 which is just prior to our launching the Dave Card product in late 2020 and an indication of how we've been able to deepen engagement with this added offering within our ecosystem. This trend accelerated throughout the third quarter 2022 with transactions per active reaching 4.9 in September, driving transaction based revenue growth of approximately 43% vs Q2. Dave Card is a key component of our strategy that is starting to materialize after many product synergy enhancements.

We were also able to make improvements to our unit economics as some of our margin enhancing initiatives came online, leading to a nearly 280 basis point increase in non-GAAP variable margin. Our ExtraCash portfolio is also performing well. We grew originations by approximately 110% year-over-year while our 28 day delinquency rate improved 13 basis points from the third quarter 2021 (and improved by over 80 basis points from the third quarter 2020).

Importantly, we were able demonstrate strong growth while also reducing our EBITDA burn, particularly as we progressed through the quarter, with burn significantly down as we entered Q4.

Now, to dive a little deeper into the quarter and our progress against our strategy to be the superior banking product for everyday Americans.

First area of focus is to acquire customers efficiently at scale by marketing top of mind liquidity pain points for hard working Americans. As mentioned above, we had a record quarter in terms of new member growth and total members. Our key value prop of helping folks get extra money from Dave to afford their everyday expenses continues to resonate strongly.

We were able to grow member acquisition by approximately 82% on a year over year basis while keeping CAC flat. CAC is now close to pre-Covid levels having further improved to under $20 in the last half of Q3 and declining further thus far in Q4 due to favorable competitive dynamics on our primary channels which is driving lower CPMs..

CAC improvements have also been unlocked through a combination of investments we've made in marketing new product and feature enhancements, improvements in our infrastructure to support strategic optimization as well as an increased focus on channel expansion, all of which provides us with a more durable and diversified marketing mix.

In addition to progress we've made on CAC, our newest cohorts are some of the strongest we've seen in our history as our product enhancements are driving additional ARPU and retention, leading to improved return profiles from an LTV to CAC perspective

Lastly, one important thing to point out is that the customers we acquire historically and currently acquire are younger, the large majority are under the age of 34 which gives us excitement about the lifetime value potential.

Next is to engage customers by delighting them with same-day access to credit using our AI driven underwriting.

ExtraCash allows customers access to up to $500 of overdraft funds the same day they join Dave with no interest charges. We can do this because of our AI and data-driven underwriting that can make an instant decision based on income and spending data from a linked bank account. This user journey is far different than that of a traditional bank which requires weeks or months of direct deposit wait time and charges overdraft fees up to $34 per use. Dave was first to market with this disruptive solution back in 2017.

Customers love the ExtraCash feature and use it frequently, on average only needing to borrow funds for 8 days and accessing it approximately 2 times per month. We had approximately $757.1 million of ExtraCash origination volume throughout the quarter, an approximate 110% growth rate over the same period last year. The net ExtraCash receivables portfolio totaled approximately $87.6 million as of quarter end, which highlights the high velocity and capital efficient nature of the product. By way of comparison, our net ExtraCash receivables portfolio totaled approximately $44.9 million as of the end of 3Q21, representing approximately 95% growth on a year-over-year basis.

Importantly, through underwriting improvements and pricing adjustments, ARPU has increased by 11% on a year-over-year basis, something we had committed to on our last call.

28 Day delinquencies improved by 13 basis points on a year-over-year basis as we continue to demonstrate our risk management capabilities and ability to manage the unit economics of ExtraCash. It is worth pointing out that sequentially, 28-Day delinquency performance was up by 40 basis points. This was in line with expectations due to the higher proportion of new members in the portfolio given the growth in member acquisition in the third quarter. New members tend to have higher DQ rates than longer tenured members. Longer tenured cohorts are performing in line with historical trends and our expectations. Further, I want to provide some context regarding the seasonal dynamics of our delinquency rates. If you look back over the past several years of performance data, you'll observe a similar trend - we see better performance in the early part of the year, supported by tax refunds. Delinquencies tick up in Q2 and Q3 and tend to fall again in Q4. This year is following a similar pattern, though with better performance than corresponding periods in prior years.

Finally, we want to create a deeper payments relationship with our members by driving adoption of the Dave Card.

Dave Card is our debit card that customers can use to facilitate their everyday spending and deposit needs. Our updated strategy to jumpstart this product has been to offer Dave Card holders cheaper and instant access to ExtraCash, which is already proving to be an efficient way to drive first time card usage, a leading indicator to a longer term direct deposit relationship. For historical context, we rolled the Dave Card out as an optional upgrade at the end of 2020 which produced modest results. However, as of this recent Q3 strategy shift showing signs of success, every new customer now receives a Dave Card as we double down on the synergy between these two product lines to accelerate our desire to have a thriving interchange business.

Additionally, Dave Card is deepening engagement with members as average transactions per monthly transacting member in Q3 has grown to 4.6x with September alone coming in at 4.9x. Direct deposit members transact on Dave Card approximately 40x per month, so keeping an eye on our ability to increase transactions per monthly transacting active member is a good one to track our progress on the strategy. Not only is this an important strategic metric for us but increasing card engagement and growing transactions per MTM is a way to unlock the significant interchange ARPU opportunity we have.

I did want to address why Dave will continue to thrive even against a challenging macro backdrop, including a recession or high unemployment. The short duration of ExtraCash provides a unique advantage in allowing us to make updates to our underwriting models significantly faster than traditional credit products with longer durations. We're able to adjust pricing and underwriting on a continuous basis and observe the impact on our portfolio within days and weeks of origination. This contrasts with longer-tenured credit products on which it can take years to meaningfully adjust the pricing and underwriting in the underlying portfolios to reflect consumer credit market conditions. ExtraCash also limits overall risk per customer, given our average principal exposure per Member advance is roughly $150.

Moreover, our underwriting engine is unique in that the AI is primarily using bank account transaction data to make credit decisions. The data we receive allows us to detect changes in income patterns which FICO-based underwriting struggles to achieve given the heavily lagged nature of a FICO score. The nearly real-time credit signals we receive position us favorably in the event of rising unemployment. On the repayment front, our settlement flows allow us to apply all income sources in linked accounts, including unemployment and government benefits, to repay the ExtraCash receivables. And finally, unlike typical consumer lenders, our goal is to ultimately build a long-term financial relationship with our customers. ExtraCash serves as a highly efficient and profitable way to establish those relationships early on.

Before I recap, I want to touch on the proxy we filed yesterday, which includes our plans for a refreshed employee equity plan. We have an outstanding team here at Dave, and employee retention and engagement is important to our continued trajectory of growth and profitability. We felt that this was the right proactive step to take for our business as we lean in on our existing team to drive operating leverage without the need for meaningful investments in net new headcount.

In summary:

1. We have a market-leading CAC bolstered by profitable unit economics with credible growth prospects.
2. Our Differentiated AI / data-driven credit underwriting has rapid payback duration and minimal capital requirements.
3. ExtraCash to Dave Card flywheel effect is unlocking significant additional revenue potential within our massive, growing TAM.
4. Positive outlook shows our continued progress towards reaching Adjusted EBITDA profitability in 2024, while operating a resilient and well capitalized business.

Now, I would now like to pass it over to Kyle, our CFO.

Kyle Beilman

Thank you.

As Jason mentioned, our total non-GAAP operating revenue was $58.6 million during the third quarter, representing 41% growth compared to the same period last year. Total operating revenue on a GAAP basis during the third quarter also grew 41% versus Q2 of 2021. This growth was driven by increases in our monthly transacting member base as well as ARPU expansion given continued improvements in ExtraCash monetization and growth in Dave Card engagement.

For the third quarter, non-GAAP variable profit was $24.7 million, representing a 42% margin relative to our non-GAAP total operating revenue. From a margin perspective, this represents an increase of about 280 basis points relative to the second quarter. The increase was primarily attributable to the margin-driving initiatives we began realizing in the third quarter, including improvements to key vendor costs, increased emphasis on fraud controls relating to Dave Card, and ongoing improvements to ExtraCash risk management and our credit policy, which will better position us to react to potential headwinds in the macro environment.

Supporting our variable margin efforts, we remain laser-focused on ExtraCash portfolio performance, and have had consistent and strong results, with an average 28-day delinquency rate of 4.07% in Q3, a 13 basis point decrease vs. Q3 2021's average.

As we've previously noted, we expect incremental variable margin expansion to be driven by vendor contract and pricing renegotiations with our banking product partners, by a reduction in processing costs related to how we utilize the payment networks to move money, and, finally, by our next generation ExtraCash underwriting model which is currently being tested and has been exhibiting encouraging preliminary results.

Moving to operating expenses. The provision for unrecoverable advances totaled $18.4 million for Q3 '22, compared to $10.8 million in Q3 '21. This 70% increase was primarily attributable to increases in ExtraCash origination volume, which increased 110% versus Q3 2021. We had $757.1 million of ExtraCash originations in the quarter, up from $360.7 million in Q3 of last year. The increased expense here was driven by volume growth, as credit performance remained consistent and in line with expectations. It's worth noting that we had a sizable fraud event in the quarter that created headwinds to the provision. We've remediated the root cause and believe this was a one-off event, providing additional upside to the provision expense and variable margin moving forward.

Processing and servicing fees totaled $9.5 million during the third quarter, compared to $6.2 million in Q3 '21. This increase was primarily attributable to the increases in ExtraCash originations, which again, is healthy given the attractive unit economics in that business. On a percentage basis, processing and servicing fees improved from approximately 1.8% of origination volume in the third quarter of 2021 to 1.3% in Q3 of this year.

Our marketing and acquisition spend totaled $24.1 million in the third quarter, compared to $12.9 million in Q3' of last year as we expanded investments in our summer marketing campaigns.

We're very happy with the performance of our summer marketing initiatives. On a sequential basis, marketing expenses increased by approximately 16% while new member CAC reduced by 18%, demonstrating the scalability and incrementality of our marketing engine.

In terms of compensation, we spent $24.3 million during the third quarter, compared to $15.4 million in Q3 2021. The increase was primarily attributable to increased salaries and stock compensation expenses as we invested in headcount to support our ongoing growth initiatives.

Sequentially, there was a 38% reduction in compensation expense, driven largely by lower stock-based compensation expense in the third quarter. After adjusting for that impact, compensation expense in the third quarter was roughly flat compared to second quarter 2022 levels. Going forward, we will continue to exercise tight cost discipline by only hiring for critical positions and re-evaluating the need for back-fills as they arise to further support our efforts around profitability.

Adjusted EBITDA for the third quarter was a loss of $27.5 million compared to a loss of $28.5 million during the second quarter of 2022. The sequential top-line growth and variable margin expansion we achieved were offset, in part, by higher marketing expenses in the quarter. Adjusted EBITDA losses improved substantially on a month-to-month basis within Q3 based on growing revenue, the front loading of our marketing spend in the quarter and the ongoing benefit of our variable margin improvements.

For added context on margins, several of the initiatives underlying our variable margin improvements are ongoing and yielding positive results, which we expect to increasingly realize in Q4 and into early next year.

GAAP net loss for the quarter was $47.5 million compared to a GAAP net loss of $27.1 million in the second quarter of 2022. Additionally, it's important to note that the third quarter net loss figure includes approximately $9 million in one-time charges related to legal settlements as well as one-time transactional expenses; and the second quarter net loss figure benefitted from approximately $29 million of Other, non-operating income related to the extinguishment of liability as well as changes in the fair value of earnout and warrant liabilities.

Now turning to the balance sheet. As of September 30th, we had approximately $225 million of cash and cash equivalents, restricted cash,and short-term investments. Additionally, we had $18 million of undrawn capacity under our warehouse credit facility as of quarter end, and ample runway to scale that facility as we continue to grow our ExtraCash business. The remaining term on that credit facility is over two years. In aggregate, we believe we are well capitalized to deliver solid growth, execute on our strategy and achieve profitability without the need to raise any additional equity capital.

Now turning to our outlook.

We continue to expect non-GAAP total operating revenues to be between $200 and $215 million for the year.

In terms of margins, we continue to expect our non-GAAP variable margin to be in the range of 40% to 44%. As noted above, we continue to expect our margin-driving initiatives to yield results into Q4, with additional upside in 2023.

We also expect Adjusted EBITDA to significantly improve from third quarter levels as a result of continued margin improvement, greater operating leverage, and lower marketing spend based largely on continued CAC efficiencies. In the fourth quarter of 2022, we expect to spend between $11 and $13 million on marketing and acquisition spend, a 46% - 54% reduction relative to the prior quarter.

Overall, we're excited about the trajectory of the business, our product roadmap, and our strong level of capitalization which positions us well for prudent growth and a clear path to profitability .

And with that, I'll pass it over to the operator for Q&A.

Operator

Thank you. We will now begin the question-and-answer session.

Our first question comes from Devin Ryan with JMP Securities. Please go ahead.

Michael Falco

This is actually Michael Falco standing in for Devin. Thanks for taking my question.

Maybe just one on expenses. Not to get too far ahead into 2023, but given the environment and on one hand the strong growth you're seeing, but on the other hand the obvious desire to move toward Adjusted EBITDA breakeven, are there any early frameworks for kind of how to think about the expense run rate or growth in the next year, and whether that would be based on product development or expanding the infrastructure of the firm? Just kind of how we should be thinking about that going into the year ahead.

Kyle Beilman

This is Kyle. I can take this one.

I think the sort of feedback that we'd provide at this point is that from a fixed cost structure perspective we're really comfortable and confident that we can continue to innovate and drive product development with the team that we have, and so we don't expect any significant increases from that base moving forward at this point. We're going to continue to really focus and be disciplined on any new headcount, as I mentioned in my remarks, any new headcount from here and just really focusing on the existing team that we have in place to support growth.

From a marketing perspective, I touched on that as well in my remarks. Ramping things down here in the fourth quarter and I think we'll really be able to demonstrate the benefits of our operating leverage, continuing growth in top line, our margin enhancements and just overall lower levels of investment, which will really manifest itself in a significant step-change function in EBITDA losses in Q4 and we feel like we're on a really positive trajectory to deliver on our timeline of Adjusted EBITDA breakeven by 2024.

Michael Falco

Thanks. That's very helpful. Maybe just one follow-up? It seems like the current environment continues to benefit—the macro environment continues to benefit some of the products such as ExtraCash and demand there. That said, we're starting to see a little bit of a comedown from peak inflation and we'll kind of see where that trends. But if inflation begins to normalize, how do you see these volumes progressing? Is there a level of inflation where maybe demand diminishes?

Jason Wilk

We're very confident that this product performs very well and has a significant need in pretty much every environment except for a heavy stimulus environment. That's where we saw demand go down in 2020 and 2021 as the government stepped in to cover a lot of short- term liquidity needs for our members. We have seen some macro tailwind with everyday essential product getting more expensive, but ultimately what we're seeing now is stimulus is mostly burned off. We're just seeing things related to return more towards 2019 levels as deemed from our CAC and from our growth overall. So, I don't see any slowdown. There's always going to be a need for customers to access small amounts of money between paychecks to cover things like gas, groceries and food.

Michael Falco

Great. Really appreciate it. I'll hop back in the queue. Thank you.

John Wilk

Thanks for the question.

Operator

As there are no more questions, this concludes our question-and-answer session. I would like to turn the conference back to Jason Wilk for any closing remarks.

Jason Wilk

Thank you very much for the time. We remain super excited about this business and we look forward to future progress with everyone. Thanks a lot.