Presentation

Operator

Good afternoon, and welcome to the Dave Inc. conference call. (Operator Instructions) And finally, I would like to advise all participants that this call is being recorded. Thank you.

I'd now like to welcome Jason to begin the conference. Jason, over to you.

Jason Wilk
Co-Founder, CEO, President & Chairman

Thank you, and good afternoon, everyone. I'm very proud of our team's performance in delivering another strong quarter for Dave members and shareholders. In Q1, we grew revenue by nearly 40% year-over-year and were flat sequentially in line with our expectations given the seasonality of demand for our ExtraCash product during tax refund season.

Our variable margin and unit economics continue to improve, driven by a combination of substantial improvements in credit performance, our renegotiated key vendor contracts and continued processing cost efficiencies. This margin expansion, coupled with lower marketing spend and fixed cost operating leverage, allowed us to more than halve our adjusted EBITDA loss for the second consecutive quarter, building on our progress in Q4 and advancing our path to profitability.

I believe our improved profitability drivers over the past 2 quarters validates our operational strategy and positions Dave for success as we further cement ourselves as one of the leading neobanks in the U.S. Our affordable member-centric banking products have already drawn millions of customers to Dave, and we look forward to continuing to execute on our strategy of becoming a superior banking product for everyday Americans.

Now to dive a little deeper into the quarter and our progress against our strategic growth initiatives. Our first area of focus is to acquire banking customers efficiently at scale by marketing top-of-mind liquidity pain points. Our key value proposition of being a neobank that helps people access short-term liquidity for their everyday expenses without incurring overdraft fees continues to resonate strongly, driving efficient member acquisition.

In Q1, we added 587,000 new members and grew our monthly transacting numbers to 2 million, representing 34% year-over-year growth. We were able to achieve this growth despite seasonally lower demand for ExtraCash as tax refunds help to support the liquidity needs of our audience during tax season. These seasonal dynamics typically lead to lower response rates on our campaign, which is why we tend to moderate marketing spend in the first quarter. However, we actually reduced our CAC by 4% sequentially and nearly 40% relative to the first quarter of 2022. We believe these favorable acquisition trends demonstrate the strong demand for our products that should help to reinforce our overall growth objectives for the year.

As Kyle will outline in a moment, we plan to ramp up marketing spend in the second and third quarters as we believe we can achieve even more attractive returns on investment at greater scale in those periods and reaccelerate growth.

Our second focus area is to engage customers by delighting them with instant access of up to $500 of extra cash using our proven AI-driven underwriting models. In the first quarter, ExtraCash origination volume grew over 45% to $798 million on a year-over-year basis, driven by both growth in numbers as well as higher ExtraCash limits compared to the prior year. On a sequential basis, ExtraCash originations remained flat, reflecting the tax refund-driven seasonal dynamics I described earlier.

From a monetization standpoint, our unit economics are durable and margins are improving. Average revenue per origination remained steady. Our 28-day delinquency rate was a record low, improving by nearly 100 basis points sequentially and 67 basis points year-over-year. As we've discussed on our last several calls, we believe our underwriting and risk management capabilities are a competitive advantage and that this quarter demonstrates just how powerful our model is. Even against a challenging consumer credit backdrop, we're making gains.

As mentioned earlier, we moderated marketing spend in the quarter to better match market demand for ExtraCash around tax refund season. Consistent with our plan to ramp up marketing spend over the balance of the year, we expect ExtraCash originations to accelerate as demand normalizes seasonally with additional tailwinds based on the challenging macro backdrop impacting our numbers and broader TAM.

Our final focus area is to create deeper payment relationships 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 paychecks, putting Dave at the center of their financial lives. Utilizing ExtraCash as a conversion point for initial card usage, we are continuing to make meaningful progress in growing Dave card spend. Average transaction per monthly transacting member grew to a record 5.4 in the first quarter. We had another quarter of record Dave card spending volume, increasing 12% sequentially and 62% on a year-over-year basis as the Dave card continues to gain traction. We anticipate these positive trends to persist, supported by an exciting product road map that is aimed at capturing this opportunity.

I remain optimistic about our outlook. We're delivering significant value for our members, solving their fundamental pain points and building loyalty that enables us to deepen our relationships 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.

Overall, we're tracking well against our strategic growth initiatives and our commitment to achieving profitability in 2024. With that, I will turn the call over to Kyle to take you through our financial results. Kyle?

Kyle Beilman
CFO & Secretary

Thank you, and good afternoon, everyone. Before we get into the specifics, I just want to echo Jason's sentiment. We're happy with our Q1 performance as our top line metrics were in line with expectations. We're demonstrating our differentiated underwriting and risk management capabilities, delivering our margin-enhancing initiatives and making progress on our strategic priorities. All of this has led to another

quarter of closing the gap to profitability while maintaining strong liquidity with net cash increasing quarter-over-quarter.

Our total GAAP revenue in Q1 was $58.9 million, up 38% from Q1 last year. Our growth was driven by increases in our monthly transacting member base, improved ExtraCash monetization and stronger Dave card engagement. First quarter GAAP revenue was roughly flat sequentially and in line with our expectations given the negative seasonal effect of tax refunds on demand for ExtraCash during the first quarter.

Non-GAAP variable profit in Q1 increased 91% to $34 million, representing a 56% margin relative to our non-GAAP revenue compared to a 41% margin in the year ago period. The increase in variable margin was primarily due to markedly lower provision expense in the first quarter, the renegotiation of a key vendor contract that went into effect January 1, as well as ongoing processing cost enhancements that we've discussed on the last couple of calls. We do not expect variable margin to remain at these elevated levels in the quarters ahead, given the dynamics related to loss provision, which I'll describe in a moment. However, we do anticipate variable margin for the balance of the year to remain notably above 2022 levels and for the full year to fall comfortably within our established annual guidance.

Moving to our first quarter operating expenses. The provision for credit losses decreased 13% to $12 million compared to $13.8 million in the year ago period. As a percentage of ExtraCash originations, the provision declined to 1.5% in the first quarter compared to 2.5% in the year ago period. The decrease was primarily attributable to 2 main factors: first, we have made significant improvements in our underwriting over the past year, which have translated into a markedly better 28-day delinquency rates and overall credit performance despite the deterioration in the macro environment and significantly higher originations. In Q1, our 28-day delinquency performance improved by 67 basis points year-over-year while we grew originations by nearly 50% year-over-year to $798 million. On a sequential basis, we improved our delinquency rate by nearly 100 basis points, while originations remained roughly flat.

The second factor, which led to the decrease in provision for credit losses in Q1 was attributable to strong settlements during the quarter, due in large part to the positive seasonal effects of tax refunds on our members. This resulted in lower member advances outstanding as of the quarter end, and hence, a lower allowance and provision for credit losses. Going forward, we anticipate provision expenses will increase as we expect to grow originations and as seasonal dynamics normalize. However, they should remain lower than 2022 levels as a percentage of ExtraCash origination due to sustained improvements in underwriting performance.

Processing and servicing costs during the first quarter totaled $7.1 million compared to $6.5 million in the year ago period. On a percentage basis, relative to our origination volume, processing and servicing costs improved roughly 30 basis points or 25% to 0.9% compared to 1.2% in the year ago period. This improvement was largely due to the payment flow optimization and efficiencies that reduced network costs associated with ExtraCash in Q1, which will be fully reflected in the second quarter with more initiatives in flight that we expect to deliver further upside over the coming quarters. Marketing and acquisition spend totaled approximately $9.4 million in the first quarter compared to $12.2 million in the year ago period, representing a 23% reduction. We achieved a nearly 40% year-over-year reduction in CAC in the first quarter as a result of continued channel and creative optimizations, which were supported by favorable market conditions. As a result, we were able to spend 23% less on marketing in the quarter, but acquired 27% more new members relative to the year ago period.

As Jason touched on, we anticipate ramping marketing spend back up in the coming quarters to capitalize on demand for ExtraCash and the higher returns on investment we can achieve at greater scale in those periods. We expect that these investments, along with the demand for ExtraCash rebounding after tax season should accelerate originations of ExtraCash-related revenue throughout the rest of the year.

In regards to compensation expense, we spent $24.4 million in the first quarter compared to $17.9 million in the first quarter of 2022, due in large part to our strategic investments in product, engineering and the expansion of our marketing personnel base to execute on our growth initiatives.

We anticipate the level of compensation expense in the first quarter to remain roughly flat going forward as we believe that our existing team and resources are sufficient to deliver on our objectives. GAAP net loss for the first quarter improved 57% to $14 million compared to a net loss of $32.8 million in the first quarter of 2022, driven largely by the factors highlighted above.

Adjusted EBITDA loss for the first quarter was $4.5 million compared to a loss of $18.3 million during the year-ago period. On a sequential basis, adjusted EBITDA loss improved over 60% as we expanded variable margin and reduced marketing spend, due in part to lower tax and continue to exercise discipline with respect to our fixed cost base.

Now turning to the balance sheet. As of March 31, 2023, we had approximately $196 million of cash and cash equivalents, restricted cash, marketable securities and short-term investments compared to $193 million as of December 31, 2022. This increase in cash balance was largely due to strong ExtraCash settlements in the quarter in addition to the moderate level of ExtraCash originations. As a result, our portfolio was a net source of cash in the quarter, given how quickly our ExtraCash receivables turn into cash.

As of March 31, 2023, our net receivables balance was $80 million, a decrease of $24 million sequentially. We expect this net receivables portfolio balance to increase over the coming quarters in line with our planned growth in originations.

With respect to funding, the outstanding balance on our debt facility remained at $75 million throughout the quarter. We expect to continue to rely on our balance sheet cash to fund ExtraCash originations in the near term as opposed to our debt facility, given the cost of capital difference relative to the returns on our corporate cash. We have nearly 2 years of remaining term on that facility, which affords us both higher advance rates and lower cost of funds when we do more fully utilize the facility.

Overall, we have high conviction in our current level of capitalization and in order -- and in our ability to deliver solid growth, execute on our strategy and achieve profitability without the need to raise additional equity capital.

Now turning to our outlook. We continue to expect our non-GAAP revenue to range between $235 million and $260 million for 2023, representing growth of 11% to 23% relative to 2022. We expect variable margin to normalize from first quarter levels such that we also expect to comfortably achieve our full year non-GAAP variable margin guidance, ranging between 43% to 47%, which represents a 200 to 600 basis point improvement relative to 2022.

With respect to our primary profitability metric, we are reiterating our adjusted EBITDA guidance for the full year 2023 as well, which calls for a loss ranging between negative $50 million to negative $35 million, reflecting a 43% to 60% improvement from 2022. We plan to prudently scale marketing investments over the coming 2 quarters to accelerate growth, which in combination with normalized variable margin will increase adjusted EBITDA losses in those 2 periods. With the expected additional scale from those marketing investments, in conjunction with the improvements we have achieved on our unit economics to date, we're well positioned to achieve our target of turning adjusted EBITDA profitable in 2024.

We continue to believe we have ample liquidity to deliver on our growth plan without the need to raise additional equity capital. And with that, this concludes the financial highlights. And I'll turn it back over to Jason for his closing comments.

Jason Wilk
Co-Founder, CEO, President & Chairman

I'd like to thank everyone for joining the call today as well as our dedicated team for their continued commitment to driving the growth of the business and ultimately achieving profitability. Dave has a bright future ahead, and I look forward to providing further updates on our next call.

Operator

There are no further questions at this time. Before I close the call, please note that certain comments made in 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 the SEC rules. You'll find reconciliation charts and other important information in the earnings press release and Form 8-K furnished to the SEC. This now concludes today's conference call. You may now disconnect. Thank you.