Presentation

Operator

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Dave's financial results the third quarter ended September 30, 2023. Joining us today are Dave's CEO, Mr. Jason Wilk; and the company CFO, Mr. Kyle Beilman.

By now, everyone should have access to the third 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 (sic) [https://investors.dave.com]. In addition, this call will be available for webcast replay on the company's website. [Operator Instructions]

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 the 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 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 factors 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. Please go ahead.

Jason Wilk
Co-Founder, CEO, President & Chairman

Thank you, and good afternoon, everyone. I'm pleased to share with you that we delivered another quarter of strong performance in Q3. We continue to execute well against our strategic and financial objectives while making significant progress towards profitability and beating our expectations on key financial and operational metrics.

Non-GAAP variable margin and non-GAAP variable profit expanded substantially, and we continue to generate operating leverage on our fixed cost base as we scale the business. As a result, our adjusted EBITDA in the quarter improved over 90% year-over-year to a loss of $2.5 million. Based on these strong trends, we have raised our full year 2023 guidance across the board for non-GAAP revenue, non-GAAP variable margin and adjusted EBITDA. The midpoint of our guidance implies that we will turn adjusted EBITDA positive in this fourth quarter which is 1 to 3 quarters faster than expectations we set in mid-'22.

During our second quarter earnings call last year, we also set expectations around the levers we plan to employ to solidify our path to profitability. Since then, I'm incredibly proud of how we have rallied as a team and executed so strongly in order to deliver on our commitments despite the challenging market conditions. First, we committed to focusing on enhancing member lifetime value and expanding variable margins to improve the magnitude and durability of our variable profit-based unit economics. Second, we committed to conversion-focused marketing campaigns on channels with the highest proven returns, maximizing the efficiency of our investments. Finally, we committed to rationalizing expenses and driving operating leverage from our fixed cost structure as we grew the business.

Our Q3 results demonstrate the substantial progress we've made against these objectives. First, we expanded our non-GAAP variable margin by 1,600 basis points based on initiatives that Kyle will get into in a moment. We also integrated the product experiences of our ExtraCash and Dave Card business, as we said, and as a result, nearly doubled Dave Card spend volumes and achieved double-digit growth in ARPU. Second, we reduced quarterly marketing spend by 1/3 and still managed to substantially grow member acquisition as we reduced our CAC by nearly 50%. Finally, we've driven substantial operating leverage as our fixed cash expenses declined modestly, while our non-GAAP variable profit more than doubled. The net result of this progress is that we reduced our adjusted EBITDA loss from $28.5 million in the second quarter of 2022 to $2.5 million in the last quarter, approaching breakeven.

In addition to the progress we've made on our financials, we remain true to our values of being member centric, and we remain committed to progressing on our mission to build products that level the financial playing field. Moving forward, we are excited to continue driving profitability out of our model that will enable us to grow and make impact for current and prospective members through ongoing growth and product development, ultimately allowing us to make further progress towards our ambition. Now with that said, I'd like to dive a little bit deeper into the quarter and our progress against our strategic growth initiatives of acquiring new members efficiently, engaging them effectively and deepening our relationship with them via Dave Card engagement.

Diving into our first strategic growth initiative. We once again drove meaningful member growth despite significantly reducing marketing spend relative to last year. As we discussed in prior quarters, we strive to acquire customers by marketing free banking services with the ability to instantly access short-term credit with no interest and no credit check, a message that strongly resonates with our Millennial and Gen Z audience. In the third quarter, we added 821,000 new members while decreasing CAC by 30% on a year-over-year basis.

On a sequential basis, we reduced marketing spend by 7% and still managed to grow member acquisition by 11% due to a 17% improvement in CAC. We attribute our CAC efficiency improvement to our continued platform improvements, channel optimization and enduring product market fit coupled with the more rational competitive dynamics in the market for advertising inventory. These CAC efficiencies have persisted thus far in the fourth quarter, which bodes well for marketing performance.

Our second key strategic growth initiative is to engage members by delighting them with instant access of up to $500 of ExtraCash using our proven AI-driven underwriting models. Our monthly transacting member base remained roughly flat sequentially to 1.9 million. To unpack this a bit more, our Dave Card and ExtraCash monthly actives grew healthily sequentially. However, as we mentioned last quarter, we began to transition our $1 per month subscribers to a new billing system, which has created a near-term headwind to overall MTMs as we include $1 subscribers in this metric. We expect to complete this migration in the fourth quarter, and we're excited about the flexibility that this new system will provide us to potentially pursue further subscription opportunities.

Turning to our ExtraCash business. We once again drove a significant increase in ExtraCash origination volume, which was up 23% year-over-year and 7% sequentially to $932 million. This growth is largely driven by increases in ExtraCash transacting members. This performance highlights the strong demand for ExtraCash, both from new and existing members, as our origination volume metric approaches nearly $1 billion per quarter.

Despite the increase in origination volume, our net receivables balance remains low with only $97 million, once again highlighting how the short duration of ExtraCash allows us to serve a vast number of everyday Americans without the need for a sizable capital-intensive balance sheet nor significant credit risk exposure at any one point in time.

Furthermore, our 28-day delinquency rate improved 165 basis points compared to the third quarter of 2022 and 41 basis points sequentially despite challenging macroeconomic conditions and step-change growth in origination volume. This third quarter figure represents the lowest ever 28-day delinquency rate in our company's history despite the previous low occurring in the first quarter, which typically exhibits the seasonally strongest credit performance given the additional liquidity provided to members from tax refunds.

Our strong credit performance is attributable to the ongoing investments we're making in our proprietary AI-enabled risk management and payment system. Over the past few quarters, we've launched 2 new underwriting models focused on different member segments of our portfolio. The combined effect has been incredibly positive as we're sustainably driving higher levels of conversion, retention and net monetization.

Moving to our third strategic growth initiative. We are constantly working to create a deeper payments relationship with our members by accelerating adoption of our Dave Debit Card through the synergies that exist with ExtraCash. We aspire for our members to utilize our full suite of banking services, complemented by our market leading short-term liquidity feature of ExtraCash.

Our Dave Card metrics continue to display progress with improved cross attach rates from ExtraCash into our Dave Card business, which is demonstrated by the 73% year-over-year increase and 12% sequential increase in Dave Card spending volume in the third quarter. Our average transaction per monthly transacting member increased 39% year-over-year and 13% since the second quarter to 6.4% for another record quarter.

We plan to continue executing on our strategy and driving further adoption of Dave Banking heading into 2024. Pulling together our solid progress within both ExtraCash and the Dave Card monetization, we recorded a 9% increase in ARPU during the quarter on a year-over-year basis and an 8% increase sequentially, which highlights our ability to effectively monetize our core multi-transacting member base. As we look to the fourth quarter and into 2024, we expect to see incremental improvements in ExtraCash ARPU resulting from the new percent-based express fee pricing structure, which we introduced to new and existing members over the last

few months. This new structure is exhibiting favorable early signs for ExtraCash monetization and creates even greater synergies with the Dave Card, which should support monetization on that side of our business as well.

All said, we continue to deliver significant value for our members and deepen relationships with them as we seek to become the primary banking destination for everyday Americans. We have successfully executed against our road map, and our execution in 2023 has positioned us to accelerate our path to profitability as we are now on the verge of turning adjusted EBITDA positive in Q4 while continuing to generate double-digit 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 experience for everyday Americans.

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 record our third quarter results as we exceeded expectations across our key operational and financial metrics. We grew our non-GAAP variable profit by over 50%, demonstrated the sustainability of our non-GAAP variable margin improvements and made significant progress on our path to profitability, approaching breakeven on a non-GAAP adjusted EBITDA basis.

The KPIs underlying the key tenets of our strategy are also very positive. Versus Q3 of last year, CAC is down 30%. Originations are up 23%, exceeding $930 million. Our 28-day delinquency rate is at its lowest point in company history and cross-attach into Dave Card is strong, with total Dave Card spend exceeding $340 million, up 73% year-over-year.

Now to dive a little deeper into our results. Total GAAP revenue in Q3 was $65.8 million, up 16% from Q3 of last year. Revenue growth was primarily driven by increases in ARPU from our monthly transacting member base. The ARPU expansion has largely been driven by higher ExtraCash and Dave Card engagement amongst our total MTMs. From a product development standpoint, we're extremely focused on our user journey of delivering a best-in-class short-term credit solution to drive member engagement and Dave Card adoption, which is driving the growth of ExtraCash and Dave Card actives and increasing ARPU and member lifetime value.

Non-GAAP variable profit in Q3 increased 51% to $37.3 million representing a 55% margin relative to our non-GAAP revenue, up approximately 1,300 basis points versus Q3 of last year. The increase in variable margin has been driven by structural improvements across our business. First, credit performance continues to improve as a result of ongoing development and optimization of our AI-enabled underwriting engine and supporting infrastructure, resulting in higher spreads and lower credit losses. Additionally, we have driven efficiencies in how we utilize the payment networks to move money and reduce costs resulting from contract negotiations with several key vendors. Our ability to sustain these non-GAAP variable margin levels has enabled another increase to our margin guidance for the year, which we'll be sharing more detail on later in the call.

Moving to third quarter operating expenses. Our provision for credit losses decreased 13% to $16 million compared to $18.4 million in Q3 of last year. As a percentage of ExtraCash originations, the provision declined to 1.7% in the third quarter compared to 2.4% in the year ago period. The decrease in loss provision is attributable to the ongoing improvements we've made to our risk architecture, as I referenced a moment ago.

These gains are also evident in our 28-day delinquency performance, which tracks the delinquency rates of a given quarter's originations. Compared to the third quarter of last year, our 28-day delinquency rate improved by 165 basis points to 2.42%, while we grew originations by 23% to $932 million.

Processing and servicing costs during the quarter decreased by 26% to $7.1 million compared to $9.5 million in the year ago period. On a percentage basis relative to the origination volume, processing and servicing costs improved nearly 50 basis points to 0.8% compared to 1.3% in the year ago period.

These gains are sustainable, driven by technology investments we've made in our payments infrastructure and improved contractual terms with vendors, as I also referenced a moment ago. Advertising and marketing expenses decreased 42% to $13.9 million during the third quarter compared to $24.1 million in the year ago period. This 42% reduction in marketing spend led to an 18% reduction in member acquisitions since we were also able to reduce our tax by 30% over that period. This, combined with the long tail marketing investments made during the second quarter, enabled us to efficiently deploy our marketing dollars and significantly reduce spend during the third quarter while continuing to meaningfully grow our variable profit.

Compensation expense decreased 5% to $23.1 million in the third quarter compared to $24.3 million in the year ago period despite increasing non-GAAP revenue by 15% over the same period. As a percentage of non-GAAP revenue, compensation expense declined

from 41% in Q3 of 2022 to 34% in Q3 of '23. We continue to believe that we can execute on our plan without needing to make material additions to our overall headcount given the scalability of our technology platform and overall operating model.

GAAP net loss for the third quarter improved to $12.1 million compared to a net loss of $47.5 million in the third quarter of 2022, representing a 75% improvement. Adjusted EBITDA loss for the third quarter was $2.5 million compared to a loss of $27.5 million during the year ago period, representing a 91% improvement. The improvement in adjusted EBITDA was due primarily to the combination of our revenue growth and variable margin expansion, coupled with tight cost controls and lower marketing spend. As Jason mentioned, this puts us well on track to meet our goal of turning adjusted EBITDA profitable as early as the fourth quarter of this year, which would be 1 to 3 quarters faster than the expectation we set during mid-2022. We're really proud of the work that our team has done to get us to this point and look forward to continue to build on our momentum in Q4 and throughout next year.

Now turning to the balance sheet. As of September 30, 2023, we had approximately $171 million of cash and cash equivalents, marketable securities, short-term investments and restricted cash compared to $178 million as of June 30, 2023. As of quarter end, our net receivables balance was $97 million, an increase of roughly $8 million sequentially. The amount drawn on our credit facility remained at $75 million as of the end of Q3 as we continue to rely on our balance sheet cash in the third quarter to fund ExtraCash originations versus our credit facility given the cost of capital difference between our facility and our corporate cash.

That said, a few weeks ago, we announced that we had amended our credit facility to increase our capacity by $50 million to $150 million, an increase in the advance rate by approximately 800 basis points, and we were able to reduce our cost of funds by approximately 200 basis points and additionally extend the maturity date by an additional 2 years such that we now have over 3 years remaining on the term of the facility. As highlighted in our earnings release today, the fact that our lending partner was willing to extend more capital at more favorable terms despite the notably tighter conditions in the broader capital markets speaks volumes to the strength of our business, unit economics and overall outlook.

Now turning to our guidance. Given our significant revenue improvements throughout the year, we now expect full year 2023 non-GAAP revenue to range between $257 million and $261 million, representing growth of 22% to 24% compared to last year. Second, given our sustaining levels of variable margin this year and the improvements that we've made to our variable cost structure, we are raising our full year 2023 non-GAAP variable margin guidance to range from 53% to 54%, which is up 1,200 to 1,300 basis points relative to 2022.

Finally, we are also raising guidance and now expect full year 2023 adjusted EBITDA to be a loss between negative $22 million to negative $17 million, reflecting a 75% to 80% improvement from 2022 and implying a range of negative $2 million to positive $3 million in the fourth quarter. The significant improvements across our key financial metrics throughout the year have not only allowed us to raise our guidance but have left us well positioned to achieve our goal of achieving profitability in the coming months.

I'll now pass it over to Jason to conclude our call.

Jason Wilk
Co-Founder, CEO, President & Chairman

I'd like to thank everyone for joining today's call and for the entire Dave team's commitment to our strategy, which has led to our outperformance.
Operator, we can now open the call for questions.

Question and Answer

Operator

[Operator Instructions] And our first question will be coming from Gary Prestopino from Barrington Research.

Gary Frank Prestopino
Barrington Research Associates, Inc.

Look, a couple of things here. Can you maybe -- can we dwell -- there's a number of things I want to delve into if you don't mind. But can we dwell into what is really driving the improvement in CAC? I mean you've cited a couple of things here, but I'd like you to elaborate a little bit on that because that's really great improvement on the customer acquisition costs.

Jason Wilk
Co-Founder, CEO, President & Chairman

I think there's a few things happening here, Gary. One, we think that the timely message to help people get access to up to $500 in 5 minutes or less is really driving a [chord] with consumers right now given inflationary -- the inflationary period driving up cost for consumers. Additionally, I think there has been a lot of channel optimization we've done to really do a lot of mixed media testing to make sure we are spending the right amount on the right channels.

We've also really doubled down the channels that are the most efficient for us, scaling back on some other channels that otherwise proven to not be as efficient at scale. And lastly, we think overall, given -- on the macro side, given the pullback of the crypto industry, there's quite a bit of dollars that have been pulled out of the ecosystem, which is favorable for us just seeing a decrease in CPMs across the board. All that said, I think we have a nice tailwind behind us to continue to have efficient CAC for the foreseeable future.

Gary Frank Prestopino
Barrington Research Associates, Inc.

Okay. What -- as you went through this process, what are some of your more efficient channels that you're using for acquiring customers, if you can elaborate on that and make that public?

Jason Wilk
Co-Founder, CEO, President & Chairman

I don't know that we disclosed the channels. It's a lot of the more notable names that you've heard of before. And the way that we build creative and optimize those channels, I think, is what is really unique to Dave, less so the channel mix.

Gary Frank Prestopino
Barrington Research Associates, Inc.

Okay. And then on the ExtraCash, you said you put some new, I guess, models, added 2 new underwriting models or algorithms or whatever. Could you maybe elaborate what you're finding as you've developed a better history with this product that you've been able to positively change some of those algorithms or underwriting factors?

Kyle Beilman
CFO & Secretary

Sure. Gary, I am happy to take this. This is Kyle. Thanks again for the question. So one of the unique things about our business is just the velocity of our portfolio. So I think as you can appreciate, we turn the book over several times per month, just given the very short duration of ExtraCash.

And so with that, we're just able to originate a substantial amount of transactions. I believe we have originated ExtraCash over 90 million times to date. And so with that opportunity, we have tons of data points on performance and the ability to just continue to optimize and risk split within the portfolio to find efficiencies and basically risk profile customers more effectively.

We've also made substantial amount of investments just in our underlying payments infrastructure that supports ExtraCash, which I think is also another key part of our secret sauce and has allowed us to cut back on delinquencies. But overall, it's just been a dedicated

focus from the team just to continue to optimize the portfolio. And we're able to, like I said, be in a unique position to do that just given the velocity and the number of at bats that we have based on the number of transactions we're originating.

Gary Frank Prestopino
Barrington Research Associates, Inc.

Are you finding in this kind of environment, Carl, that -- Kyle, I'm sorry, that you're getting a lot more inquiries into ExtraCash in terms of short-term needs?

Kyle Beilman
CFO & Secretary

So generally speaking, demand is pretty favorable right now. I would consider it more normalized coming out of a high stimulus, high -- with a lot of extra backstopping that was coming in through a lot of the COVID relief and just looking a lot more similar to what things look like pre-COVID, which I think is a more favorable overall environment for us to be in.

But I wouldn't say we're in any sort of abnormal demand period based on anything that we've seen. It's just strong and consistent overall demand, and we've continued to add value to the product over time, too, that's driving higher degrees of retention as well. So yes, overall, positive and productive macro, but I wouldn't say abnormally favorable.

Gary Frank Prestopino
Barrington Research Associates, Inc.

Okay. And then I'm just going through my notes here. You mentioned something about a new fee schedule as well as I think it was you're moving away from the dollar per month subscription. Did I get that right? Could you just talk a little bit about that?

Kyle Beilman
CFO & Secretary

Yes, sure. So first and foremost, on the fee structure, so historically, we had a peer dollar-based fee structure as you sort of went -- with respect to the ExtraCash express fee. So as limits went up, the express fees went up but not linearly. They were -- it was just a fee tier that was for arbitrary as you went up the limit spectrum. Starting earlier in the third quarter, we onboarded all new customers into a percent-based pricing model, so allowing us to -- or scale our fee structures up with our origination size. We've also paired that with a bigger discount for folks to send their ExtraCash funds to our Dave Card to further drive that trial and engagement with the Dave spend account.

But overall, we're -- we think this change is helpful from a monetization perspective. It also just helps to better align us with the customer to ensure that we're delivering the maximum value for ExtraCash and our unit economics to support that. So it's been a positive change, and we expect it to be additive in the fourth quarter as we rolled that out to all of our existing customers in the beginning part of the quarter.

Gary Frank Prestopino
Barrington Research Associates, Inc.

So you're getting rid of the tiered structure and you're just going to an overall flat percentage?

Kyle Beilman
CFO & Secretary

Correct.

Gary Frank Prestopino
Barrington Research Associates, Inc.

Okay. And then what was the other thing there with the dollar per month membership? Did you say you were stopping that? Or did I miss...

Kyle Beilman
CFO & Secretary

We're taking a close look at our subscription business overall. But the changes that we've made is we've built a new billing system and payments architecture underlying the subscriptions product that we started to roll out last quarter, has presented a bit of headwinds just

in terms of migrating users over into that new billing structure that's like I said, put some headwinds around the number of MTMs. But what that does allow us to do is gives us a lot more flexibility in the future to roll out prospective subscription offerings at a later date. So we're excited about that opportunity but taking a close look at more of the specifics for 2024 around what that could look like.

Gary Frank Prestopino
Barrington Research Associates, Inc.

Okay. And then just lastly and I'll let somebody else jump in. I mean you guys have done a great job of getting the cost structure down and driving efficiencies and growing the revenues through ExtraCash and the Dave Card. I mean, at this point, do you feel pretty confident that you really evolved the company on -- to a step-change basis, where as you continue to grow revenues in this environment that your year-over-year losses and adjusted EBITDA will diminish and you could maybe attain a run rate of profitability for a full year?

Kyle Beilman
CFO & Secretary

I mean certainly...

Gary Frank Prestopino
Barrington Research Associates, Inc.

EBITDA profits, I mean. I didn't mean the overall GAAP profits.

Kyle Beilman
CFO & Secretary

Yes. Well, I guess to answer the first part of the question, we feel like the improvements that we've made, first and foremost, on the variable cost structure are sustainable, and we've completely rerated the kind of unit economics based on the changes that we have made there, so feeling very good about the trajectory of just the optimization and monetization part of our existing unit economics.

I think, overall, we still feel very confident in the overall kind of growth opportunity and prospects to continue to grow the top line and feel like that our team is of sufficient size now for us to execute on our plan without making material additions to our overall fixed cost base in order to deliver that growth plan. So I think what that all leads us to is a very favorable outlook with respect to profitability moving forward.

Operator
And I'm showing no further questions. This concludes today's conference call. Thank you for participating. You may now disconne