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<<Joseph Vafi, Analyst, Canaccord Genuity>>

All right, everybody, we're going to keep it going here at the 44th Annual Canaccord Growth Conference. I'm Joe Vafi, Equity Research Analyst here at Canaccord, focused on the fintech sector. And up next, we are pleased to have with us the management team from Dave, and that's Jason Wilk, CEO; and Kyle Beilman, CFO. Launched in 2017, Dave is an innovative fintech company focused on providing a differentiated set of financial services which helps level the playing field for some lower income consumers. Dave provides a great banking application, which has no minimum balances, no overdrafts, and the ability to do modest cash advances. Dave also helps its members build credit and even find gig jobs if they need to augment their income. The company recently reported its Q2 results with record revenue and an upped outlook for the year.

So with that, welcome, Jason and Kyle.

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

Thanks for having us.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Great. So maybe we'll just start off and introduce Dave to us in your own words, I think the name of your company comes from David versus Goliath, right, and leveling the playing field for people. What was the inspiration to start the company? And then we'll kind of dig into how you're differentiated versus other financial services players out there.

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

Yes, thanks for having us. So, as you said, the name stands for Dave versus Goliath. I was very disgruntled by paying a lot of heavy overdraft fees going through college, and I quickly realized after researching the problem that it really is a massive cost of serve issue that these incumbent banks have, that they have the need to charge these high fees just to break even on an average cost of serve. The everyday American bank costs them $300 per year to maintain a checking account for a user. Our digital first model, which has no bank branches, our cost to serve a consumer is about $50 per year. Therefore, we can pass through those savings in terms of having no overdraft fees, having no minimum balance fees, and through our use of data, intelligence and AI, we can offer a superior overdraft protection product we call ExtraCash, which bridges the gap between paychecks for our customers to lend them between $25 and $500 to get gas and groceries at no interest.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Great. And then maybe we kind of just talk about the revenue model here. Can you go over some of the different ways you do generate revenue? I know in Q2, I think you posted some really nice growth on the top line, I think over 30%. So, maybe kind of talk about what your revenue model is and some of the drivers of that growth right now.

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

Yes. So we monetize our completely free checking and savings account with interchange from our issuing partner, MasterCard. We're making about 150 basis points every time somebody swipes a Dave MasterCard. And that's a very high margin business that we think is a great way to build long-term relationships with our members. We charge for access to our budgeting features, which tells customers about their upcoming bills, helps to warn them about upcoming things that could take their account negative.

We charge $1 per month on that and our ExtraCash overdraft service which will lend people up to $500. We do charge optional fees, mostly for access to speed where people who want the money instantly we charge between 3% and 5% depending on where they want the money sent. And on average we make about $9 per origination far cheaper than what they're paying it a incumbent bank and a far better experience. It's much more transparent as a customer knows exactly how much money they're approved for and how much they can rely on to go buy gas and groceries or help supplement their even rent.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Sure. And maybe we'll just kind of compare and contrast your model. I mean, you're nicely profitable. You're growing very fast with no branches, right.

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

Right.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

And you think of what kind of a legacy incumbent bank businesses today and the costs that they have with their brick and mortar locations, with the systems they have in place and the like maybe just at least from your perspective looking at their cost structure versus yours and how you're able to deliver and pass a lot of that savings on to customers in lower fees and in freer products, right?

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

That's right. That was really the thesis for starting the business was the cost of service too high at the incumbents. If we can have a digital first strategy that leverages best-in-class technology, take a very asset light model. We have 300 employees that are servicing 2.3 million monthly paying members. We have over 11 million total members on the platform at this point. And it just shows that inherent operating leverage within our business that we can offer an amazing product at scale with a significantly cheaper cost structure, with better technology, and that results in a much cheaper product for the consumer, better quality, and certainly puts a lot of money back in their pocket.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Sure. And then…

<<Kyle Beilman, Chief Financial Officer>>

So add to that. This past quarter was our third consecutive quarter of accelerating revenue growth. We grew the business by over 30%, as you mentioned. But if you look at the trajectory of our fixed cost base over the past five quarters, we've actually reduced our fixed costs as we've been able to achieve that revenue growth, our gross margins are up about 1,000 basis points year-over-year. So it's just everything is kind of coming together. We hit this inflection point of scale at 2.1 million monthly transacting members. And we just don't really need to add any incremental expense to continue growing the size of our customer base at this point. And that's just translating into, I think, some really attractive financial results.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

For sure. That's great. And then maybe one of the drivers of that nice growth has been, and you mentioned your monthly active users, but I think ARPU is also going higher, is that right?

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

Right. Yes, that's right. So we've been able to increase our ARPU sequentially as well. And that's really a result of us getting even better at underwriting. So we can now increase the amount of ExtraCash our customers can rely on between paychecks. We've also seen our loss rates come down year-on-year as well. So very healthy dynamics here that we can offer a better quality service through better underwriting and reduce losses. So…

<<Kyle Beilman, Chief Financial Officer>>

Yes, our originations were up about 37% year-over-year, and our delinquency rates were down about 80 basis points over the same period. So usually you see those things work in reverse of one another.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Sure.

<<Kyle Beilman, Chief Financial Officer>>

We've seen them. We've been able to increase originations, while driving down loss rates, which is a big driver of the margin outperformance that we've seen. So we've issued ExtraCash about 105 million unique times to date. The feedback loop on that, on a short duration product like that just allows us to continue to fine tune the model. And I think we've been able to really demonstrate our ability to manage risk effectively over the past year and a half or so. And it's been somewhat of a challenging macro backdrop for other types of credit providers who are closing off the credit box or derisking their models. And we've sort of done the opposite.

<<Kyle Beilman, Chief Financial Officer>>

That's great. And it's a super short duration product, right, for you?

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

That's right. It's not designed to compete with personal loans or credit cards. This is truly something that people use, almost like working capital. It's the checking account that you can get extra leverage to go buy gas and groceries knowing that it's going to be due on your next paycheck date. So, we never have a lot of duration risk ever with our business. And we don't really think it is even in a similar asset class to these other types of credit, given the dynamics at play, we're the only people that are raising originations and reducing loss rates of the class.

<<Joe Vafi, Analyst, Canaccord Genuity>>

That's great. Maybe we just drill down into that for a second, because, I don't know the answer is, on your underwriting model. How have you kind of fine-tuned it? I guess one thing would be, you've got a big base of monthly actives, and so you know who may be coming back again for another short duration loan, right. And so, you know, they're probably a pretty good credit risk, right. Are there some other things to fine-tune your underwriting?

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

Yes, I think it starts with the data set that we're leveraging to make credit decisions. We ingest a customer's transaction data within the checking account. So, based on that, we know where you work, we know where you shop, we know how much you get paid, how much you typically spend between paychecks, and we know all that data in real-time.

So we can take all of those considerations into the model when extending a credit decision so that real-time visibility into the customer gives us a big edge. You add to that to the fact that the duration is very short, we can continue to sort of move the dial on our models to figure out what's more effective risk splitting within the portfolio, make changes and see the result of those changes in a matter of a week or two. And so that's just a compounding effect over time, that we just get smarter and smarter the more that we originate the product.

And I think that's just what you're seeing playing out in the delinquency performance over time.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Great. And then your ExtraCash product, I mean, not only are your existing customers using it, but it's a great customer acquisition tool in the first place.

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

Yes.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

I think that's really kind of one of your key levers to grow your customer base, right?

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

Absolutely. We had a very early hypothesis founding the business that people don't wake up in the morning excited to open up a new checking account. And we had seen other neo bank entrants sort of try and fail at building these businesses because the cost to acquire was so high to bring a user in, people are not excited to move over their checking account, which makes you move over all your bills.

It's a painful process. Therefore, that's why their CAC is in the hundreds of dollars. We took a very different approach of let's solve the pain point people really have access to, which is they need to cover these gas and grocery payments there, don't want to pay a $34 fee. So, Dave started out just offering the short-term liquidity to people with ExtraCash. That dominates our marketing message today across television, across digital, streaming TV influencers that, Dave, is the checking account that you can get up to $500 within five minutes of download. And that's a really powerful message for people that are willing to take you up on that offer. And it's a very lightweight approach to delivering instant speed of value to the customer that doesn't require them to switch over their direct deposit.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Right.

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

And that's a meaningful way that we can use to acquire users. Our cost to acquire in Q2 was only $15 to get a new checking account open, compare that to $500 at the incumbent banks, and that's another point of leverage we have to keep costs lower for consumers because it all factors into a cheaper cost to serve.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Yes, we always see those advertisements from big banks, $300 to open a new account, and then you don't even do it anyway, right?

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

Exactly. We don't offer any account opening incentive. It's purely that we are the best at offering paycheck to paycheck liquidity. And that's the reason why you're going to open an account, drives very low CAC also drives very strong word of mouth. 30% of our customer acquisition is from people sharing it with friends and family. It's been that way ever since we started the business and we think a very healthy dynamic that allows us to continue to compound growth of the business without the need to spend a lot of money on marketing.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Great. And your customer acquisition costs, I think, $15, right.

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

Yes.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

So I guess doing an ExtraCash for person for the very first time and not seeing their financial history with your account, there is a little more risk, obviously, upfront there.

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

There's actually not. So the way we actually do our underwriting, you can be approved in two ways. So when you join Dave, you can get approved for ExtraCash if you become a direct deposit member of Dave, which takes about 30 days for us to underwrite you for your first ExtraCash origination. We also let people opt to link their external account, which they're coming over from via Plaid. And Plaid is the conduit between Dave and 14,000 banks where people can input their username and password of their Chase or Wells Fargo account.

Plaid then gives us access to 18 months of that customer's checking account data, and we get a real-time connection ongoing, and we're using that data to feed our AI model, which is determining people’s paycheck dates. It's looking at the types of transactions they're making. We know if you're using BNPL, we know if you're using other lending apps, we know if you missed your paycheck, we know if your paycheck was lower. These are all things that FICO data does not give you access to. And we think that this type of underwriting lends itself very well to a super short term duration product like ExtraCash.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Great. And then once you do get a new customer, you tend to monetize that customer more over time, right, or user?

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

That’s right. So, our goal with the customer is to acquire them very efficiently with a strong top-of-funnel marketing message, which is get up to $500 in five minutes or less. That drives our $15 account opening. Then it's our goal to engage the customer with ExtraCash. Our approval rates for first time customers is incredibly high because we are leveraging the existing account data. But ultimately, our goal is to get that customer to send the extra cash money to their Dave debit card, which we ship all users. And the North Star really for us, is for that customer, then set up direct deposit and become a primary account customer.

So, we take a slower path to winning our way to direct deposit. But we already have very strong CAC to LTV dynamics, just with the ExtraCash business in itself. So, anything down funnel to convert to direct deposit is purely gravy for us at that point.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Sure. Yeah. Once you have direct deposit hooked up to that account, then the Dave debit card probably moves to the top of the wallet, right?

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

That’s right.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

And it just starts getting swiped more.

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

Yeah. You’ll see – we see an ExtraCash customer that does not – you’ve used Dave checking versus someone that’s a direct deposit user that uses ExtraCash. It’s about five times the monthly revenue per user once we see that, that shift. So it is a meaningful way for us to drive more ARPU and more LTV for the customers just by deepening our engagement. And we’re sub 10% direct deposit penetration today. So it’s a very exciting opportunity for us to continue to grow the business without even adding any new products.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Sure. Maybe we kind of drill down into the strategy of getting more, increasing that conversion rate to direct deposit and what you’ve learned so far and make in sending your users or customers to make the switch.

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

Well, we’re great at driving trial of the card. So 50% of people that engage with ExtraCash at any given time will trial the Dave card at some point. I think steady state right now is about 30% of people will continuously use the ExtraCash on their Dave card. But the direct deposit, our only go-to-market to win customers there is by having no overdraft or minimum balance fees, which is a great value prop. But we'd love to extend that into offering other types of incentives to get people over the hump. We know that the ARPU dynamics are 5x to 6x and so we have a lot of leverage from rewards to even cash bonus at that point to want to get people over as we know the exact incremental LTV we can extract when someone can get there. And that's more of a later this year 2025 initiative for us to try and further drive towards more adoption there.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Sure. And I think the industry backdrop on that. Did I read somewhere recently that some of the big banks may be dropping free checking unless you've got a big balance inside the bank, is that right?

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

Yeah. So that's actually in relation to some regulation proposed around capping overdraft fees at banks with over $10 billion of assets. And it was actually the JPMorgan consumer CEO that came out and said if you cap overdraft fees, we have to raise prices elsewhere. And so free checking is going to be a thing of the past if overdraft doesn't exist, because that's one of the levers they have to recap their high cost to serve. The banks aren't just going to operate their checking business at a loss. They have a lot of levers to pull to extract that total revenue they need to break even and overdraft goes away. High minimum balance fees are here to stay. That we think is always going to be a tailwind for us because of our lower cost of serving lower CAC.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Yeah. We'll see what happens. That would be a great tailwind. So your ARPU is going up, you're growing your custom. What kind of monthly active growth rate are you at now?

<<Kyle Beilman, Chief Financial Officer>>

So year-over-year in Q2, we were just shy of 20% monthly transacting member growth.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Got it. And then how does churn figure into your model? I mean, it seems like a lot of your customers stay with you, but everybody has some churn, right?

<<Kyle Beilman, Chief Financial Officer>>

Sure.

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

Yeah. We don't see a lot of sort of manual churn of people deleting their accounts. You will see customers fall in and out of dormancy because people will sometimes use ExtraCash to cover a short-term emergency. They'll churn off the platform for a little while. They'll come back when they have another bump in the road what they need to cover gas and groceries. That's why migrating people more to a transactional relationship with the Dave card makes a lot of sense as you become more top of wallet, something people use every day. And that we think is a healthier, longer-term dynamic to migrate customers into.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Got it. And is there any plan on the roadmap to offer more? I mean, I'm sure there probably is, right? And then you've got your other things like you got your gig on the side, right? And I'm not sure what the update is on that, but some of the other things you're doing to help your customers.

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

We do have a product called Side Hustle, which connects people to gig opportunities within the landscape of driving for Uber, driving for Instacart, there's about 50 different opportunities within the app to help our members find more income. The more income they make, the more ExtraCash they can get approved for. So we actually are incentivized to help customers find more ways to make money on their account. We also recently launched an expansion to that feature called surveys, where people can respond to branded questions about Walmart and other different providers and actually earn money for taking those surveys.

All the money of which gets sent to the Dave card, is an additional way for us to drive opportunity and transactions on that. As far as growth, though, we think our core competency of the business is the ability to use cash flow data to underwrite consumers for credit. We're excelling at that with ExtraCash with $1.2 billion of originations in Q2. But we know our customers aspire for a little bit longer duration too. And so we are exploring what are the ways that we can take people from ExtraCash, which is always due on your next paycheck date, to how do you give them some longer duration to pay for a vacation or pay for something like a refrigerator that they can take the whole summer to pay back, not just pay back in a few days.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Right. But it wouldn't be like a two-year duration product or something like that?

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

No. I think cash flow underwriting that there's absent FICO data has, I think, a sweet spot within, call it sub six months where that real time access can give you good visibility. But it would be tough because people's lives change a lot in a three-year period. So I think we're most likely best going to market through partnerships with longer-term lending. And we think because our CAC is so low, that we can generate a lot of nice incremental LTV through partnership models. We don't have to take on big balance sheet risk reduce the economics because our cost to acquire is so low.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Right. And then probably that longer duration product would maybe be with existings and not with new people or new customers.

<<Kyle Beilman, Chief Financial Officer>>

Yeah. I think we have the ability to stratify even higher risk versus lower risk customers who are new to the platform. Our underwriting model, we have an internally developed kind of credit score that we score people on the basis of. And so even for new customers, we'd be able to offer them something a little bit longer duration than ExtraCash should we choose to do so. But it is such a wide top of funnel. We had, I think over 700,000 new customers sign up for the platform in Q2, which just gives us a big pool of customers to be able to market various products to.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Got it. And I don't know if you disclose this or not, I'm just kind of curious. Is like the kind of approval rate on ExtraCash for brand new applicants. Is that…

<<Kyle Beilman, Chief Financial Officer>>

Something we disclosed, but it's really high. It's quite high.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Okay.

<<Kyle Beilman, Chief Financial Officer>>

And that just gets back to being able to start the relationship very early on. Deliver value to a large number of customers very quickly within the customer journey, builds a lot of loyalty and goodwill with them right off the bat. We think that's part of the reason why we see our organic numbers be so strong is that we – it's that speed to value. People can be stuck at the grocery store or stuck at the gas station, download the app, get to work, feed their family and that just engenders a lot of goodwill and we hope to sort of parlay that into a longer term relationship as Jason described but, yeah, that's it.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Got it. And then a lot of that gets built into your CAC metric anyway, right?

<<Kyle Beilman, Chief Financial Officer>>

Correct.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

There's an investment in that customer base...

<<Kyle Beilman, Chief Financial Officer>>

That's right.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

...at the beginning, right? Great.

Aria, yeah, it's good to see you. Yeah. Yeah. Do you have a question?

Q&A

<Q>: [Question Inaudible]

<A – Jason Wilk>: Yeah. So I'd probably classify it as like three separate segments. There's the people who are just using extra cash. There are the people who are using extra cash and the Dave debit card, and there's the third bucket where there are direct deposit users and likely engaging with extra cash and as you sort of move from Segment 1 through Segment 3, you unlock additional monetization through debit card spend and interchange. You also get the retention benefit that we see as we get people to familiarize themselves with the Dave card and start to utilize that product and then ultimately direct deposit. We don't disclose what the specific kind of LTVs are of those specific customer segments, but we do see both retention and monetization benefit as we kind of move from one through three there that is really accretive to the model.

But on average from a new customer standpoint, we're paying back our customer acquisition costs in about four-and-a-half months at this point. And so we just feel like all of that incremental transition that we get from steps one to the second step to the third step is all just additive to that. It shortens that payback period and expands the multiple of LTV to CAC.

<Q>: [Question Inaudible]

<A – Jason Wilk>: Yes. So just to clarify we have about of the 11 million total customers that we have on the platform, on average in Q2 we had about 2.3 million of those total customers transacting with us within the quarter. And so of that 2.3 we don't disclose the direct deposit penetration of that audience, but it is relatively low. We're chipping away at that opportunity to call it the single-digit percentage point's penetration of that audience. But we are really excited about continuing to lean into unlocking product value in exchange for a direct deposit as part of our – key part of our strategy throughout the rest of the year and into next.

<Q>: [Question Inaudible]

<A – Jason Wilk>: No. We have, I think as I mentioned an internally developed kind of almost like similar to a FICO score, our own kind of model score for customers. We've seen that number be pretty stable over the last 12 to 18 months, I would say. And then our delinquency

performance is actually improved over that same time period. So we're not seeing that consumer stress on through our customer base and they...

<Q>: [Question Inaudible]

<A – Jason Wilk>: That on a static pool basis? Yeah. We're very strong believer's that's the only way to evaluate credit performance for a business like ours.

<A – Kyle Beilman>: Yeah, I would say this customer is always in their own kind of recession, right? Someone who's younger that's not making a lot of money or they're paycheck to paycheck and so they're always dealing with these liquidity challenges that aren't necessarily related to a recessionary type environment.

<Q – Joseph Vafi>: We'll take one more and then I think we're going to have to, yeah.

<Q>: [Question Inaudible]

<A – Jason Wilk>: Yeah. So Evolve Bank & Trust who is the partner bank where we store our deposits and those are the account of record. When people open a Dave account, they are opening an account with Evolve Bank & Trust. They did recently have a data breach which resulted in a federal consent order against them to increase their risk management policies at their company. Ultimately, we feel very strong about their ability to continue on as a partnership. We noted in the earnings call that we are working on a redundant bank partner. Should there ever be a situation where we would need to and the ability for us to transfer accounts or users over to that new bank partner would be not a material event for revenue attrition for us.

<A – Kyle Beilman>: No. No. Yeah. We have a really good relationship with the management team over there. We're paying very close attention to the situation, but our business has been impacted whatsoever. We continue to post really strong results, and as Jason mentioned, we're taking steps to further add redundancy to our partnership stack through a second bank sponsor.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Great. We're out of time, gentlemen. But thank you very much...

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

Thanks a lot, yeah.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

...Jason and Kyle for being with us and sharing the great story.

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

Of course.

<<Kyle Beilman, Chief Financial Officer>>

Yeah.

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

Thanks for having us.

<<Joseph Vafi, Analyst, Canaccord Genuity>>

Appreciate it.