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GDOT - Q1 2013 Green Dot Corporation Earnings Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Green Dot Corporation first-quarter 2013 earnings conference call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. The contents of this call are being recorded. I would now like to turn the conference over to Chris Mammone, Vice President of Investor Relations for Green Dot. Please go ahead, sir.

Christopher Mammone - *Green Dot Corporation - VP of IR*

Thank you and good afternoon, everyone. On today's call Steve Streit, our Chairman and Chief Executive Officer, and John Keatley, our Chief Financial Officer, will discuss 2013 first-quarter performance and updated thoughts regarding our 2013 outlook. Following their remarks we will open the call for questions. The slides that accompany this call and webcast can be found at ir.greendot.com, and will remain available after the call. Additional operational data have been provided in a supplemental table within our press release.

As a reminder today's call is being recorded and our comments include forward-looking statements, including statements about our GoBank product, the future impact of competition and new more stringent risk controls, and the results of our business development pipeline and our expectations regarding future results and performance. Please refer to the cautionary language in the earnings release and on Green Dot's filings with the Securities and Exchange Commission, including the 2012 Form 10-K that we filed on March 1, 2013, for additional information concerning factors that could cause actual results to differ materially from the forward-looking statements.

During the call we will make reference to financial measures that do not conform to Generally Accepted Accounting Principles. This information may be calculated differently than similar non-GAAP data presented by other companies. Reconciliations of those non-GAAP financial measures to the most comparable GAAP measures are included as supplemental tables in today's earnings release and are also available at ir.greendot.com.

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Finally, just a couple guidelines for today's Q&A session. In an effort to get to everyone in queue we ask that you limit yourself to one question and one follow-up and then queue back in for any additional questions. Now I'd like to turn the call over to Steve Streit.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Thank you, Chris, and welcome, everyone, to our Q1 earnings call. With me as always this afternoon is Green Dot's CFO, John Keatley. So let's get right to the financial results.

Q1 turned out better than we had internally modeled as we posted year-over-year growth in non-GAAP revenue of 8%, achieving our highest ever quarter in terms of non-GAAP revenue at $156 million. Adjusted EBITDA was $34 million, representing a margin of 22%, a nearly four point increase over our Q4 margin. John and I feel that our Q1 results are encouraging for a number of reasons. So first, we're lapping what was a large record Q1 from last year. Recall that in Q1 2012, we still had a large number of Turbo Tax cards on file and benefited from a very large tax refund season.

Second, last year at this time the Bluebird program was not yet rolled out at Wal-Mart. Third, we were still exclusive at most of our non-Wal-Mart retailers and therefore had the entire rack to ourselves at those retailers. Fourth, the Chase Liquid prepaid card had not yet rolled out at Chase branches nationwide . And finally, last year at this time, we had not yet deployed our new more conservative risk controls which had in fact a dramatic negative impact to our new reloaded card activations this year. In fact, as a result of these new controls, this Q1 we rejected about 20% of all customers who attempted to activate one of our reloadable prepaid cards. Last year our reject rate was more around 9%. So to put it into context, it is likely that in Q1, Green Dot rejected more customers than what many of our competitors sold in their entire quarter. This doesn't mean that everyone we rejected was a fraudster. Unfortunately, the way in which risk modeling works is that you catch a lot of good guys along with the bad guys. But at the end of the day, we believe that a clean portfolio will ultimately lead to a more sustainable business and a more efficient business.

So given all this, to actually grow over last year's Q1 is certainly encouraging. Furthermore, not only did we grow revenue, but we also grew many of the key usage metrics that drive our business. For example, enrollment in direct deposit increased significantly. The number of our customers on direct deposit increased 12% year-over-year. The number of cash reloads also showed strong double digit growth, up 11% year-over-year. Average spend per active account grew by 7%, and revenue per active account grew by 13%, which is a new record growth rate for that metric.

To put all these results into context, remember that Q1 was a time when Chase, American Express, PayPal, Western Union, US Bank, Net Spend, Univision's program, Blackhawk's PayPower brand, Incom's Vanilla brand, and dozens of new celebrity entrants from Justin Bieber to Magic Johnson and more were all actively trying to find prepaid consumers in the marketplace. While at the same time, Green Dot's new risk controls were making it harder than ever for customers to buy a Green Dot product and activate it. So when you think about conducting a stress test on the company's business, I think it's fair to say that Q1 was a stress test for Green Dot.

Of course, this is all good news and our results in Q1 provide us with some level of comfort that the Green Dot brand means something special and important to prepaid consumers and that our company remains a growing leader in the prepaid market. But I do want to continue to point out that there is still a fair amount of uncertainty in our business for the remainder of the year and our Q1 results should not necessarily be construed to imply that we're out of the woods for the remainder of the year. So John and I still remain conservative in our full year outlook until we get another couple of quarters under our belts.

We know that many of you would like an update about how things are going with all the new competition in our retail stores and at major banks. While we still remain cautious about the future and we're not ready yet to draw any firm conclusions, we do feel that we're getting a better understanding of the impact of competition on our business and I'll now share some insights with you on that.

So as relates to competition at retail stores, we have now seen between 5 and 12 months of impact resulting from multiple competitors selling against us at various price points at nearly all of our retail outlets. So first we'll talk about Wal-Mart. The Bluebird product has been in stores since mid-October of 2012. Despite this, we still saw solid double digit revenue growth of 11% at Wal-Mart in Q1. This is especially significant when you also factor in the impact of risk controls which as we discussed previously, were quite significant. Particularly encouraging were the strong gains in direct deposit enrollments and reloading activity that we saw amongst our money card customers.

So the summary for Wal-Mart is that we believe Bluebird is a very good product with great pricing and features. But it's also fair to say that the Wal-Mart MoneyCard program has a loyal following, continues to grow, and is successfully coexisting with Bluebird thus far.

Now we'll talk about our non-Wal-Mart business. In nearly all of these retail outlets, we have seen a dramatic increase in new competitive offerings over the past year. Yet despite this increased competition, plus the impact of our new risk controls, in Q1 we grew revenues by 2% year-over-year in our non-Wal-Mart business. The main driver of this performance appears to be the strength of the Green Dot brand which outsells competitive products by a wide margin in every retailer for where we have, for which we have category sales data. For example, at one major retailer that sells competitive products, we know that Green Dot accounted for 86% of new card sales in Q1. At another major retailer that sells competitive products, Green Dot recently accounted for 65% of new card sales despite our products only being displayed on 30% of the rack.

Furthermore, as it relates specifically to the American Express prepaid card sold in our non-Wal-Mart retailers, and the PayPal card provided by Netspend, our information shows that the Green Dot brand outsells these cards by at least a 10 to 1 margin. Of course, the nature of ongoing competition is dynamic and so we continue to reserve caution for how these results may evolve over the months and years to come.

Next, let's talk about competition from major banks. Today, many banks, big and small, offer prepaid card programs and we expect that many more banks and credit unions of all sizes will roll out prepaid programs over time. The two most notable programs in our space are the Chase Liquid prepaid card program and the US Bank Convenient Cash prepaid card program. Both banks promote these products heavily in their branches. And in the case of Chase, the Liquid program has benefited from the most expensive, most aggressive nationwide multimedia marketing campaign in our industry's history.

Neither US Bank nor Chase release active account numbers for their prepaid program, so we can't say with precision how big or small these programs might be. And since they're not sold side by side our products at retail stores, it's hard to say with precision what, if any, impact these programs are having on our Green Dot or MoneyCard program. But we can tell you that given the growth in Green Dot's usage metrics in Q1, including growth in direct deposit, reloading spend, and revenue per card, we at least have comfort that customers are not abandoning our products in favor of the bank programs out there in the market.

So in summary, uncertainty continues for the remainder of the year, and we continue to hold a conservative view as we wait to get more experience in future quarters. But we do feel that, given the results of Q1, we should update our revenue outlook for 2013. John will provide those details in his section of today's call.

Now I will talk about GoBank. The launch of, beta launch of GoBank, our new mobile bank account product, has gone as expected and we remain on track to make GoBank available to the general public this summer. We will presenting the latest developments at GoBank at the Finovate Technology Conference in San Francisco to be held on May 14th.

Our new RushCard Live reloadable prepaid card products is now in the process of rolling out to all Rite Aid stores and CVS stores nationwide. While it's way too early to know how this program will perform, we think it's a good product that will appeal to a new segment of customers and we would expect that sales from the Rush product will help drive our overall category growth at participating retailers over time.

And with that, I'll now hand the call over to John Keatley to share some more color on our performance and to discuss our revised revenue outlook for the year. John?

John Keatley - *Green Dot Corporation - CFO*

Thanks Steve. As Steve mentioned, we were able to grow revenue and make strides in our portfolio quality in Q1 despite some significant headwinds. I'll walk you through some of the key developments that impacted our results during the quarter and comment on how these align with our internal model.

First, I'd like to revisit a couple of the key assumptions behind the guidance for 2013 that we provided back in January. We discussed two major headwinds that we expected to impact our performance in 2013. Increased competition from new product offerings at our major retailers and enhancements to our risk management controls that we expected would make our portfolio cleaner but would also impact its growth.

When we built our forecast for 2013, we modeled a $100 million revenue impact from these two events, and in general we believe that the year is playing out in line with this expectation. Over the past year, enhancements to our screening process for new customers have impacted our approval rate on new customer activations by roughly 10 percentage points compared to Q1 of last year. This means that for every 100 new cards that attempt to activate, we end up with ten fewer active customers who are eligible to reload. So not only do these risk controls impact the number of active cards and reload rates among those active cards, but it also means that the impact of rejecting customers may create a headwind to overall reloading activity, active card numbers, and revenue going forward. This is one of the reasons why we are continuing to take a cautious approach to our full year outlook.

Meanwhile, the impact of new competition so far is also turning out to be roughly in line with what we modeled. Additionally, we experienced a year-over-year decline in tax refund volumes of approximately 15% in Q1. The decline in tax refund volumes was driven in part by our enhanced new risk controls and perhaps also by the softness of tax refund volumes reported by others in this space this year. Also, recall that in Q1 of last year, we still had a relatively large number of Turbo Tax cards in our portfolio.

On the positive side, there were some results that were better than what we had modeled. First and foremost, we're seeing a positive change in the mix of our active customers with the most valuable customer segments growing as a proportion of active customers and the least valuable segments shrinking relative to the overall customer base. As we mentioned, our overall base of active cards is down 4% year-over-year due to all the headwinds we've been discussing. But the customers we lost seem to be primarily the short term, non-reloading customers. That segment is down 10% year-over-year while direct deposit customers are up 12% year-over-year. And cash reloaders remained fairly stable, down just 2%. This mix shift is significant because direct deposit customers and cash reloading customers are much more valuable to us than non-reloading customers and they drive more than 80% of our total revenue. We believe this mix shift to better quality customers is driven in part by our direct deposit and reload retention initiatives.

As of Q1, Green Dot now has 700,000 direct deposit customers with an average retention of 20 months, and 2.1 million cash reloading customers with an average retention of 9 months. At 2.8 million active customers, Green Dot's reloading customer base alone is larger than the entire customer base of its nearest prepaid competitor and the blended retention rate of these customers is around one year. So believe Green Dot has the most reloading customers by a wide margin in the prepaid industry and we believe we have among the best retention rates in the prepaid industry as well.

These trends combined with increased spend per active account increasing 7% helped drive a robust increase of 13% year-over-year in the average revenue per active account to $34.70 per account.

Next I'd like to comment on our margins. Our adjusted EBITDA margin of 22% was the highest in any quarter since we acquired Loopt. This was due in part to our ongoing efforts to control expenses across the company. As we have discussed previously, and modeled into our guidance, our commission rate with Wal-Mart will increase in May, putting some pressure on margins beginning in Q2.

Our non-GAAP net income for the quarter came in at $18.5 million or $0.42 per diluted share. First quarter 2013 non-GAAP EPS includes a $0.01 benefit in tax credits from 2012. We continued to generate strong cash flows in Q1 and maintained a very strong balance sheet. We had cash flow from operations of $25 million which helped us increase our total cash and investment securities to $533 million including $370 million of unrestricted cash and cash equivalents, $163 million of investment securities, and no debt.

The portion of this cash that we consider to be unencumbered, essentially the cash in investment securities held at the holding company and not required to maintain regulatory capital ratios or liquidity requirements, was $211 million as of March 31st which equates to nearly $5.00 per diluted share. Our Q1 results have prompted us to make some minor revisions to our 2013 outlook for revenue where we essentially flowed through the acutals into our existing guidance. So now our non-GAAP revenue expectation for the full year is $525 million to $550 million as compared to our prior guidance range of $510 million to $540 million.

With just one quarter behind us and with several growth initiatives planned that may require investment, we feel that it's premature to adjust our guidance for EBIDTA and EPS, so our guidance remains unchanged with adjusted EBITDA of $85 million to $100 million and adjusted non-GAAP diluted EPS of $0.95 to $1.20 per share.

This concludes our prepared remarks. At this point we're ready to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Dave Sharp, JMP

Dave Sharp - *JMP - Analyst*

Thanks for taking my question. First off, just curious, when you look at the sort of rejection rate during the quarter from the enhanced fraud controls and obviously the biggest impact takes place during tax season, but was the 10% rejection rate pretty much in line with what you were expecting? And I'm just curious, as you kind of look out to the remainder of the year whether or not you have to make -- you feel like you have to make any additional enhancements to or conversely whether you can loosen the purse strings a little bit.

John Keatley - *Green Dot Corporation - CFO*

Hi, David, this is John. It was actually pretty much in line with our expectations. To your point, we also expected the rejection rates would be highest during tax season and might actually come down a little bit the rest of the year. And we're constantly looking for opportunities to fine-tune it, both make it tighter if it needs to be tighter and allow more people in where there are opportunities to let more people in. But we're in general, we're pretty happy with the performance of our risk controls in Q1 and they were generally in line with our expectations.

Dave Sharp - *JMP - Analyst*

Got it. And I guess my follow-up, relating to marketing costs, I know in January you mentioned that you were not foreseeing the aggregate amount of marketing expenditures in 2013 to be much higher than last year. Does that still hold? I'm trying to get a sense how to read the kind of qualifier in the end of your guidance, vis-à-vis new investments.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Sure. Our comments on marketing expenses for this year, I think we said we expected a fairly moderate increase year-over-year. That, depending on how these new growth initiatives that we expect to kick in in the remainder of the year, the timing of them, plays out, and decisions we make about how to support them, it's possible that the marketing dollars could be a bit more aggressive or more significant than we had originally forecast. But it's a little bit too early to say. As we mentioned in the prepared remarks, there is some uncertainty around some of our expenses going forward related to these new growth initiatives and marketing spend is one where there's still a bit of uncertainty.

Dave Sharp - *JMP - Analyst*

Got it. Thank you, I'll get back in line.

Operator

Ramsey El-Assal, Jefferies.

Ryan Kerry - *Jefferies - Analyst*

Hi, this is Ryan Kerry for Ramsey. Quick question. I know that you mentioned that the increased revenue guidance is really just flowing through from the strong performance in the first quarter. Can we get some thoughts on the possible impact of GoBank, RushCard or Sallie Mae in '13 and '14? I know in the past you've said that particularly GoBank might have marginal impact in '13. I just want to know if there are any updates and at what point you might expect to see these included in guidance numbers.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

You want to take that?

John Keatley - *Green Dot Corporation - CFO*

Sure. Yeah, as we mentioned before, GoBank, the public launch is coming up here in May. As in any sort of portfolio of accounts, it takes a while for the portfolio to really ramp up and start generating significant revenues. And this really applies to all three of the programs you mentioned, GoBank, RushCard, Sallie Mae. So we don't have very significant revenues built into our 2013 guidance for any of them. Which isn't to say we don't have high hopes for them, it's just that with a midyear launch at the earliest, they probably won't move the needle too much this year.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

I think the best we'd have is as you looked into Q4 you'd have early indicators of what they could be. And so as we gave guidance obviously in Q1 we'd have a better sense. Because you can sort of see if the portfolio is becoming of size and you can see what the revenues might be and then you can make some forecasts. But GoBank is such a radically new product, not just for our company, for America, for the industry, for the banking industry. So we don't have a lot of great guidance to give except it's a cool product and we hope a lot of people will use it and enjoy it. But not enough information now. So we figured safety was the better part of valor so we don't have anything cooked in yet of any materiality.

Ryan Kerry - *Jefferies - Analyst*

Great, thanks. And also, regarding that $100 million headwind in 2013, do we have any idea kind of on the cadence of how it will hit? Are we expecting it to be linear throughout the year?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Yeah, fairly evenly spread throughout the year. We definitely saw an impact here in Q1. It's possible that the impact of the risk controls build a bit over the year as it has more of an impact on the overall portfolio, but in general we expect it to be fairly evenly spread over the year.

Ryan Kerry - *Jefferies - Analyst*

Great. Thanks, guys.

Operator

Sanjay Sakhrani, KBW.

Sanjay Sakhrani - *KBW - Analyst*

Thank you. First question was, obviously kind of the revenue guidance range seems pretty wide still. Could you just talk about some of the assumptions you're making at the low end of the range? Are you assuming any new products are launched at your merchant partners? Thanks.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Sure. The low end of the range obviously moved fairly significantly with our revised guidance, so essentially we took what was our previous worst case scenario off the table with our revised guidance. So we have a new worst case scenario which is the $525 million. And that really reflects that we see continued significant impact from both competition and from the new risk controls and perhaps some building impact of the new risk controls as over time the higher decline rates impact our portfolio of active cards. And essentially no new revenues from new initiatives. And that is essentially the worst case scenario that we have in our guidance right now.

Sanjay Sakhrani - *KBW - Analyst*

Okay, great. And then just following up on that, understanding a lot of your investment dollars have been focused on GoBank of late, I was just wondering kind of where the investment opportunities are within prepaid. Are there opportunities kind of outside of the business segments you're in right now? Thanks.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Yeah, we think so. There's a lot of opportunities out there and some of which we already have firm visibility into that we haven't modeled into our forecast, but we believe will hit second half of the year. And as announcements are appropriate, we'll make them as we get closer. So we think there's a lot of opportunity. We think there's a lot of new distribution to retail that we're not in today. We think there's a lot of verticals where our products, especially GoBank, are a great fit for which maybe the prepaid side of our company isn't, and that could be some growth. So we feel pretty good that we have lots of avenues of growth to pursue and we plan on pursuing them.

Operator

Greg Smith, Sterne, Agee.

Greg Smith - *Sterne Agee - Analyst*

Hi, guys. I'm just wondering why we're not seeing the interest income line at least pick up some? It looks like to was down year-over-year. I would just think with all your own issuance now, we would have at least seen some pickup. What am I missing there?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Well the number of our interest income is low and will likely stay low for the foreseeable future. We have a very conservative investment policy and we essentially hold all the cardholder funds in cash or securities that are pretty close to cash in terms of liquidity and duration. I think we had some sort of temporary pickups in the interest income line related to some of the loans on the books of Bonneville Bank that we acquired at the end of 2011. But the actual interest income on the cash that we hold at the holding company of the bank has been pretty constant.

Greg Smith - *Sterne Agee - Analyst*

Okay, that's helpful. I think it's those loans that were inflating it a year ago. And then just can you give us an update on your build out of internal processing and the timing around when that will be completed?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

I think when we talked about it, we gave 2014 as a year when we'd start to see some benefit and we're probably going to track later than that. So the answer is, we have the processor. We, as you remember, spent a little bit of money, a couple of million, on the assets of what used to be called EconLink. And then we spent some money to build on top of that.

One of the interesting things that we're exploring, Greg, is the fact that we're getting so much inbound interest in other processors looking to get our business at rates that are far more favorable than what we historically have spent, that we're actually looking at this as a new initiative. In other words, do we continue to build internally and put more money into our internal system? Do we say, wow, this has been a great environment to find a new partner or for that matter to renew with TSYS longer. Who knows? We still like TSYS.

So it's unclear exactly when or what we're going to do with our own processor frankly because we've reevaluated it. At the end of the day, what our goal is with that is, how can we get the most efficiency with the best scale and the best opportunity to have great technology and spend all of our time and effort on rolling out great products and services to consumers who want to buy it. That's what we do for a living.

Where we process, not a lot of people care about. In fact, nobody cares about it in terms of a customer point of view. It's more of an internal backend concern. So we're going to try to find the best deal. If that best deal is continuing to build our own platform, we'll do that. If the best deal is going to another third party platform, we'll do that. And if the best deal is to stay with TSYS, we'll do that. In the meanwhile, we've renewed TSYS. As you know, a few months back we announced that we renewed them for another year to give us more ramp and more flexibility to either invest in our own platform or to have time to integrate with another. And so we still think the processing line item is a great opportunity for better efficiency and cost savings over time, but I don't know that we're fully married and committed to our own platform to the exclusion of any other. We're just committed to the best deal for our customers and for our bottom line.

Greg Smith - *Sterne Agee - Analyst*

Okay, thank you.

Operator

Mike Grondahl, Piper Jaffray.

Mike Grondahl - *Piper Jaffray - Analyst*

Thanks for taking my questions, guys. Maybe I'll just start out with, Steve, can you talk a little bit about what you've learned about GoBank so far through the beta testing?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Well we've learned a good amount. I was kidding with John earlier that it used to be you had to conduct research tests and all those things, and we do that with customers, but in reality, you can just go to our Facebook page or our Twitter page or the GoBank official Instagram address and I read about it like you can and everyone else does. So what we learned is that people really think it's cool and really like it a lot. The younger you are the more you like it. When I say young, I'm talking 22-30 let's say. But that people really like it and are really using it and that generally it receives good comments.

We also have learned that there's some opportunities to develop different product features that some folks may want that we didn't think about initially that we'll do in future iterations. We're also learning that the technology is pretty slick. It works a lot, it does the right thing, it processes the way we want it to, and customers are really enjoying it. So we feel pretty good about it. We don't know how it's going to be adopted, but if you're around, not just you, but for anyone listening, on May 14th, [Aluk Deshpanza] who runs GoBank for us and I will do the keynote presentation at Finovate which is a technology, a financial technology conference that's going to be in San Francisco. They also have one in New York, but that's in the fall. The spring one is in San Francisco. So we'll be there doing one of the keynotes and you can look at it online on the web, the broadcast, or see us in person, and we'll have some more details about the product at that point. But so far so good.

Mike Grondahl - *Piper Jaffray - Analyst*

Great to hear. Then maybe just as a follow-up, any progress or excitement towards the Sallie Mae product you guys are working on with them? How is that headed?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Well, so when we signed it and talked about it, we always said that it was going to be a small program for this year because in a best case scenario it wouldn't really have any kind of material custom usage until Q4 because the kids go back to school in September and then they start getting refunds after that. So we still think it's at best going to be a small program for this year and I think the enrollments for Sallie Mae have been small, so I would say we like the indication of the kinds of ways their products can be used, but as we said when we rolled it out, we're not expecting it to change our world good or bad this year. It's going to be a smallish program under the best of circumstances and smaller than that under less than best of circumstances I guess. But we like Sallie Mae, they're great partners and good people and we like the opportunity, but we've not really baked anything of note into it in our model or in our forecast and I would suggest you don't either. So that's just kind of what we're looking at.

Mike Grondahl - *Piper Jaffray - Analyst*

Okay, thank you.

Operator

Glen Fodor, Autonomous Research.

Glen Fodor - *Autonomous Research - Analyst*

Good evening. Thanks for taking my question. Active cards declined a little bit, but users continued to show more growth in GDV and cash transfers. So I just want to get -- it seems to be a very positive sort of trend there, so I just want to see how much more productivity you believe can come from existing users. I mean is there sort of like a target metric relationship that we can aim for here?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Yeah, Glen, we think there's still a long ways to go on that trend. In fact, for everyone I'd recommend you take a look at the earnings presentation that we just posted recently here. It has a slide that gives a pretty detailed snapshot of the different segments of our customer base and shows how the direct deposit customers are growing quite quickly. The non-reloaders are shrinking and the reloaders were roughly flat. So the driver behind the trends you're referring to is really a shift in our portfolio towards higher quality, longer retaining customers. And that's a trend that I think has a long ways to go.

Today, only about 25% of our reloading customers are on direct deposit. That metric is improving over time. As it continues to improve, I think you could continue to see those metrics improve quite a bit.

And one of the things about that, too, that I want to point out, because like you all, we read all the reports and we talk to everybody in the industry, and there's a sense that direct deposit is the holy grail but that cash reloaders are worthless or something like that. And it's just not the case. If you're reloading with cash, especially since in Green Dot's case we own our own reload network which means we get economics from those reloads, if you're a cash reloader and you're reloading 5, 6, 8, 12 times, whatever it might be, you're a fabulous customer. Whether you're direct deposit or just reloading. So that's why we took the time to actually point out our massive number of reloading customers, 2.8 million active reloading customers, whether it's through direct deposit which is great, or whether it's through cash reloading on the Green Dot network which is also great. But that's a tremendous active reloading card portfolio and far and away the biggest in the industry by any size and measure.

So it's something we did want to point out. Then you look at that average retention of a year, and that's consistent with the best retention in the industry. I think there's a lot of folks in that zone. Some folks worse in that zone, but Green Dot looks great with retention and we have an awful large number of reloading customers that we love. So that's why we wanted to make sure we pointed that out.

Glen Fodor - *Autonomous Research - Analyst*

Good to hear. Just one last follow-up. Apologies if this was addressed. The marketing spend grew slower than revenue growth for the first time since the fourth quarter of '11. Did you take the foot off the pedal of any major investment in the first quarter? And then how do you expect this sort of trend rate to stretch out for the rest of 2013?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Yeah, our sales and marketing expenses as a share of revenue declined a bit. I think it was 50 or 60 basis points. That change was accounted for entirely, or almost entirely, by lower commissions to our retailers as a percent of revenue. We mentioned before that as some of our deals went from exclusive to nonexclusive, we'd actually get more advantageous commission rates with our retailers, and you're starting to see the impact of that. So that is a trend that you should expect to see through the year with the exception of our commission rates at Wal-Mart which step up in May.

In terms of our advertising spend, that's something we pursue a bit more opportunistically so I don't want to give any specific guidance on that and we'll pursue advertising opportunities as they arise and where we see a good return on them. But in general we don't anticipate a significant year-over-year increase in our advertising spend.

Glen Fodor - *Autonomous Research - Analyst*

Great. Thank you very much.

Operator

Bob Napoli, William Blair.

Bob Napoli - *William Blair - Analyst*

Thank you. Good afternoon. I just wanted to follow up, I mean I missed a little bit of your comments. I think you had said that Wal-Mart was up 11%, revenue from Wal-Mart. Did I miss that or is that -- and what was -- if you didn't, what was it and what was it last quarter? And what's your outlook in Wal-Mart? I just think that's so important because American Express is so aggressively going after that retailer.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Yeah, that's right, our Wal-Mart revenue was up about 11% year-over-year.

John Keatley - *Green Dot Corporation - CFO*

Fourth quarter was up 14%.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Oh, in 4th of last year it was up 14% year-over-year. There were a few drivers of that. One is the improving direct deposit penetration, the improving metrics of our business. Another one is that we had strong gift card sales in Q4 of last year and some of that revenue shows up in Q1 of the following year. So we got some lift from gift card revenue that we do not expect to see repeating in Q2, 3, and 4. But yeah, considering the competitive pressure with the new Bluebird product at Wal-Mart, we were pleased with the continued strong performance of the money card.

Bob Napoli - *William Blair - Analyst*

What do you -- do you expect Wal-Mart to remain up around that level? Or how much, kind of in your model, in your guidance, since it's such a massive customer for you, what are you looking for Wal-Mart to do the rest of the year from a growth perspective?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Well, as you know, Bob, we don't guide to retailer by retailer, but we think the Wal-Mart MoneyCard is a great program. With each passing quarter, we're seeing just how resilient it is and how loyal the customers are and how much they value that franchise. So we don't expect that to change any time soon.

Bob Napoli - *William Blair - Analyst*

Do you expect that then to remain solidly positive on year-over-year growth through the year? That's my last question.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Sure. Again, our revenue guidance is what it is for the year and we don't guide specifically by program.

John Keatley - *Green Dot Corporation - CFO*

It's tough, Bob. We're one quarter in, right? So we appreciate the question and we have our fingers crossed and we hope and we have good wishes. But with only one quarter in, it's just too early to call the game. And we think Bluebird is a great product but we think MoneyCard is a great product, too, and let's see. As we have a couple more quarters under our belt, we'll feel much more freedom to make prognostications.

Bob Napoli - *William Blair - Analyst*

Thank you very much.

Operator

Reggie Smith, JPMorgan.

Reggie Smith - *JPMorgan - Analyst*

Hey, guys, good quarter. Thanks for taking my question. I guess if I could, I'm trying to reconcile I guess your commentary on your non-Wal-Mart locations. So I guess on one hand I hear that you're outselling your competitors 10 to 1 and I'm just kind of curious why the revenue growth was only 2%. Like is it maybe you feel like the category is shrinking there? Is it pricing compression? How do I kind of reconcile those comments?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Well, John can answer the mathematical part, but 10 to 1 still implies that somebody else is having 10% of your sales I guess is more like it. So it's hard to know if those retailers are growing. I think we suffered some share loss because it would be bizarre if you didn't with so many new products on the shelf. So I think we had some share losses despite the fact that we still handily outsell those competitors.

And then the risk controls I think just had a huge impact. You have to understand that -- you don't have to understand, I'd like you to understand. I used to have a teacher who said you don't have to understand it, but I'd like you to, that today to get a Green Dot product, whether it's a Green Dot or MoneyCard product, is the same level of difficulty as applying for a Chase credit card or for a US Bank credit card or something of that nature. Forget about prepaid, I'm talking about credit cards. We ask full out of wallet questions and then we also match you to the bureau and perform a whole host of backend controls which are invisible to the customer, but that we can see on our side. And we've sort of deployed a very rigid list of risk controls. It doesn't mean that everyone you block is bad, but for a lot of casual users who are coming in and out of the product or for folks who are looking to use it for purposes that the card wasn't intended, those guys are out of the system. And so I think the risk controls to me are probably -- John, I don't know if you agree, but probably a bigger cause of the slower growth outside of Wal-Mart than the actual card sales in terms of unit sales.

John Keatley - *Green Dot Corporation - CFO*

Yeah, the risk controls definitely kind of impeded our revenue growth over and above the impact of sale. And then in terms of the 10 to 1 selling margin in some of our retailers we went from being the only product on the shelf to one of four. So if each one of those picks up a 10% share, then you could have the whole category growing 30% year-over-year and Green Dot being roughly flat.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

I think that's similar to what we saw I guess. It just depends. Yeah. I don't know if that's helpful in answering it, but -- now the good news is risk controls don't -- you don't deploy risk controls every quarter that are new and incrementally more stringent. So the good news is I think we have a chance to lap this and begin growing off this new base going forward. But we didn't reserve severity when we put out these risk controls. The thought was, let's get them out there, let's make them the industry standard, and let's make sure that if you're coming in to buy one of our products you mean to buy it and that you're going to be a customer that we can count on. And the good news is, most of our customer pass that test just fine. But 20% didn't and that's impactful.

Reggie Smith - *JPMorgan - Analyst*

Got it, that's good color. And if I can sneak one more in, I guess kind of looking at the cash balance, I think you guys called out more than $200 million in cash. I've got to ask you I guess the appetite for buybacks at these levels. And then number two, I guess kind of thinking about the capital requirements going forward, like what would $1 billion in GDV, like what would that cost you in terms of capital allocation to the bank? Just to kind of give us a sense for what your cash needs may be as the portfolio grows? Thank you.

John Keatley - *Green Dot Corporation - CFO*

Sure. So in terms of a share repurchase, no change on that front. We believe the best course right now is to hold cash for either acquisitions or to provide capital to our bank in case GoBank or another product really grows very quickly and we need to have additional capital available to support that growth.

The way to think about our cardholder deposit as just a very rough rule of thumb is that an average prepaid card, an average active prepaid card, probably has an average daily balance of around $100. So if you have a million active cards in your bank, that could be $100 million of deposits. And at our 15% tier one leverage requirement, that means we'd need $15 million of capital in the bank to support those deposits.

Operator

(Operator Instructions). Andrew Jeffrey, Suntrust.

Andrew Jeffrey - *Suntrust - Analyst*

Hey, guys, thank you for taking the question. First, John, I notice a bit of a working cap build this quarter. Can you talk, speak to that a little bit?

John Keatley - *Green Dot Corporation - CFO*

Sure. There's really nothing terribly out of the ordinary this quarter. Our accounts payable and accounts receivable do fluctuate from quarter to quarter depending on the last day of the quarter and other factors. So there is nothing unusual pushing it one way or another.

Andrew Jeffrey - *Suntrust - Analyst*

Okay. Would you expect that to reverse given that cash from ops was down about $14 million year on year in '13?

John Keatley - *Green Dot Corporation - CFO*

Well cash from operations was about $25 million, so I -- without having all the details here in front of me, that should be a fairly normalized level for us. But I'd probably have to dig into it a bit further to give you a more thoughtful and detailed answer on that.

Andrew Jeffrey - *Suntrust - Analyst*

Okay. And I apologize if I missed it, I jumped on a little late. Obviously you did better than your worst case against Bluebird at Wal-Mart. Any thoughts on sort of what the enhanced functionality of the Bluebird card might mean? Is that something that's captured in your current worst case or just maybe even qualitatively how you view the move toward being a more fully functional card than what Bluebird was when it was originally launched.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Well the Bluebird card or Bluebird account continues to get better I think, as we all do. We always roll out new features, this one rolls out new features, that one rolls out new features. Tide come up with Tide with Bounty protection. Gain now has stain fighters. It's just the nature of consumer products that they're always going to evolve and change. And I think AMEX has done a great job making that product and all their products better. And frankly we have and others have, so it's hard for me to say that because this new feature is added or that new feature is added that it dramatically changes consumer behavior.

But what I will say, and what we cautioned earlier in the call, Andrew, is that it's early in the game, that we're not drawing any firm conclusions, and we still, as you can tell by our modest revised outlook, that there's a lot of uncertainty and caution that still remains in the rest of the year. And as each quarter progresses, we'll have more clarity and we'll have more certainty and have more confidence in projecting the future. But our worst case is the worst case today, as John mentioned earlier, that $525 million revenue number, and then we'll see how things play out.

Andrew Jeffrey - *Suntrust - Analyst*

All right. Thank you.

Operator

Dave Sharp, JMP.

Dave Sharp - *JMP - Analyst*

Just one follow-up. I apologize if I missed this. Regarding reloads, did you provide how much of that, both volume and dollars, came from third party?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

No I guess we didn't yet. 26% of our cash transfer revenue came from third party reloads and that was up from around 21% a year ago.

Dave Sharp - *JMP - Analyst*

Got it. And when you just look at the dollar increase in cash transfer revenue year-over-year, roughly how much of that was from third party programs?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

We don't typically break that out. The average reload size for the third party reloads tends to be very similar to the reloads to our own portfolio. So I wouldn't expect a big difference in per reload dollar amount.

Dave Sharp - *JMP - Analyst*

Got it. Thanks very much.

Operator

Leonard DeProspo, Janney.

Leonard DeProspo - *Janney - Analyst*

Good afternoon. Thanks for taking my question. One of them was asked. I'll ask it a different way. Since the enhanced functionality of the Bluebird card came into effect in late March, are there any trends you can share with us about growth at Wal-Mart through the month of April?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

No, as you can imagine, Q2 will come soon enough and when we have that call we'll have our facts together. But we're sticking to the Q1 results now. Not because there's anything bad or good happening, just that we don't normally do that.

Leonard DeProspo - *Janney - Analyst*

Okay, thank you.

Operator

This concludes our question and answer session. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
