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GDOT - Green Dot Corp at JMP Securities Financial Services and Real Estate Conference

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PRESENTATION

David Scharf - *JMP Securities - Analyst*

All right, good afternoon. I guess we're going to wrap up the day with Green Dot Corporation. You know, normally I would just introduce them as the largest prepaid card issuer and so on and so forth, but just in the last two weeks an awful lot is changed with some big developments in terms of big acquisition and tax refund processing, the announcement on GoBank. So the business is expanding and I'm just going to let Chris Mammone walk you through the high points.

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

Thanks, David. Thanks for stealing my thunder. No, just kidding. But, no, it's been great the last couple of weeks, a lot of exciting announcements.

And just to run you through some of the highlights quickly, I'd just start with our mission, and that's here. We invent personal banking for the masses. We define our TAM as anybody in the US making \$75,000 or less in annual income, and it's a big part of the population. It's really half the country, about 160 million people.

And our vision is by offering modern, honest, and fair banking solutions to the masses we believe we can become one of the most widely used banks in America. We have advantages versus traditional banks in that we don't have -- we have not invested in any branch network, so to speak. Our retailers and our distribution partners function as our branches, and it allows us to have an asset-light model versus any other traditional bank. And that lets us offer very low fee products and at good margins.

So, just a couple factoids about Green Dot: we are the premier nationally known and trusted brand name in the prepaid industry. Our CEO really founded the concept of prepaid cards 15 years ago and that first mover advantage has allowed our brand to be the iconic brand in this space. We own the number one cash reload network. It serves 150-plus prepaid programs. 95,000 retail locations around the country feature that Green Dot reload network.

And that's really nice competitive advantage of our business, because as the industry has developed, we were the first mover on the reload side. And we integrated that reload network into the POS's of all of our retail partners. So think of it as a proprietary pipe integrated into the POS separate from the merchant acquiring relationship, separate from the tie-in to the Visa/MasterCard payment networks that allows any retailer connected to accept cash at the POS and then fund any type of electronic account with that cash transaction.

And so, prepaid card reloading is the killer app. We'll do about 45 million or so cash reload transactions this year; the bulk of those go to Green Dot card reloads and other smaller program reloads. We essentially monetize our competitor reload businesses.

And there are other use cases as well. We just launched a new offering with Walmart that will allow for same day and next day credit card payments with cash at the Walmart POS. We're excited about that one. And there's some bill pay functionality and some other use cases as well. And we think that were just scratching the surface with the capabilities of that reload network.

We are a leading fin tech company with the best mobile banking app in the industry and the owner of key mobile patents, so that's the GoBank platform which launched about a year ago, an online-only environment. And we've developed some good user statistics over the past year that we shared with the market in our second quarter earnings call. And we basically just -- we're at the point now where we know it's the right product

at the right time serving a demographic and need of a product like this. And the key now is just to scale it up and achieve great distribution, and that's where the new tie-in with Walmart comes into play. And we're really, really excited about it, obviously.

Most people don't realize that we're top 20 debit card issuer out of roughly 14,000 financial institutions in the US. I think we did about \$13.5 billion of purchase volume last year, which allowed for that ranking. And now to the extent that GoBank grows, that could really add to those totals and really move us up the charts pretty quickly.

We're the only bank of national size and scale in the US focused on serving low and moderate income families. And that gets to, again, our favorable cost structure, our asset-light model. Most of the banks in the country are focused on the mass affluent and the higher end of the market. That's why they charge so many fees and for low minimum balance accounts, because it's just not profitable for banks to serve the low end of the market.

But, again, because of our cost advantages, we can go after that market in a big way. And we think it's a pretty compelling, competitive landscape for our bank.

We possess rich data on 25 million current and past customers, so that's by virtue of running our prepaid card platform for the past 15 years and having -- collecting good transaction history and behavioral metrics on this demographic. So it's proprietary data that you won't find in any traditional credit bureau, like an Equifax or an Experian or a TransUnion. And that's another big competitive advantage for our model.

We possess massive distribution at 95,000 retailer locations in every corner of the country. So we've grown up serving the traditional retail sector -- Walmart; the drugstore channel has been a really good channel for us, so CVS, Walgreens, and Rite Aid. We introduced the dollar store channel just last year, so we have Dollar Tree, Family Dollar, Dollar General are all new distribution points for us; and 7-Eleven and convenience stores, grocery stores. So we have traditional retail mostly covered.

And in the last couple of years we've significantly added onto this distribution. Last year we launched an effort into the check-cashing industry for the first time. And, for those that follow the space, you know that NetSpend, who is the number two player in this market, has grown up through that channel and has been very successful in that channel. So it's a proven channel that we have not touched before last year, so it's all greenfield for us and we are up to about 1500 check-cashing locations today. And we think we're just scratching the surface there.

And now with the acquisition of TPG that I will talk more about coming up, that introduces a brand-new distribution channel for us, which are 25,000 plus tax prep companies that TPG processes refund transfers through -- that we think is a very good potential tie-in with our core prepaid product and checking accounts. One that we won't pursue this upcoming tax season because it's already upon us, but as we get into 2016 and beyond you can really envision some exciting revenue synergies potentially with that new channel.

We have a very strong balance sheet with around \$200 million in unencumbered cash and no debt, and note that that's prior to the acquisition of TPG. Just to give you an overview, we're using about \$55 million of that unencumbered cash to help fund the deal and we are also taking on \$150 million of new debt for the cash part of the consideration. And then we've also -- we're also issuing 6 million shares of Green Dot stock, which will make up the difference for a total value of \$320 million.

But, one of the knocks on Green Dot has always been that we've been sitting on a big pile of cash and like what are we going to do with it? So, two weeks ago, I think we made a big statement on what we're doing with that cash.

I wanted to touch on the new GoBank relationship at Walmart; again, very exciting announcement. So GoBank again is in our mobile-based checking account that we think will help us target the portion of our TAM that so far has not been predisposed to prepaid cards. I talked about 160 million people.

Prepaid has done a good job addressing the un- and the under-banked part of the market, which the FDIC might define as 68 million, 70 million people. But there are tens of millions of people out there that are in bank account products today, but they get hit with overdraft fees and minimum balance fees and NSF fees, and they're looking for a low-cost alternative. And until now, most traditional banks have the same different kinds of policies. So we think the GoBank will be a compelling, low-cost offering for that pocket of our core demographic.



Again, GoBank started as an online and app store checking account piloted in early 2013 and went general availability in mid-2013. So, by the end of October, this month, this October, a new productized version of GoBank will be on sale exclusively at all 4,200 Walmart stores nationwide.

To give you a sense of how productive the Walmart channel has been for the prepaid business, 4,000 Walmart stores at the last check on the second quarter, drove about 55% of our revenues. And the other 91,000 stores that we sell through drove the other 45%, so it's unparalleled as far as a productive distribution channel for our products.

So, again, to get to the market segments that we think are ideal for GoBank, three primary segments. One, people of all income levels who simply want a better, cheaper, more fair, and more modern checking account that fits their on-the-go mobile lifestyle. Two, people who cannot afford a checking account because of large and unpredictable penalty fees. And then, three, people who want a checking account that can't get approved because they've been blacklisted on ChexSystems or other databases due to past behavior with writing too many bad checks or running up bad credit.

So, how this rollout will look inside of Walmart, we'll have 14 incremental facings inside the Walmart financial destination center, so that's a good incremental placement. And then in the checkout lanes, an aggregate 44,000 facings of GoBank throughout 24,000 checkout lanes located in all 4,200 Walmart stores. So roughly two incremental facings per checkout lane. We'll soon turn on the online acquisition engine, and then there are other integrations possible.

So, there's a lot of questions about the fee structure of GoBank, and it's quite simple. It will cost \$2.95 for a starter kit to set up an account in a Walmart store. And then there's an \$8.95 monthly membership, but that is waived with qualifying direct deposits of at least \$500 per month, which is a pretty low threshold actually to get that fee waived.

We also have a \$2.50 cash withdrawal outside our nationwide ATM network, which is 42,000 ATMs from coast-to-coast, which is at least double the size of any national bank. And then for people using the card overseas that's a 3% foreign transaction fee. And that's it. And all those fees are well disclosed in pretty big, bold print on the back of the package, very easy to understand, and also how you can avoid all those fees with the types of waivers that I talked about.

So, what don't GoBankers pay? No overdraft fees, no NSF fees, no minimum balance fees ever. No surcharge fees at those 42,000 free ATMs that I mentioned. And I gave you a sense of how big that is versus other banks.

And, again, just to touch on why we can offer this low fee model and make strong margins is because one of our foundational inventions in 2000 was, again, the ability to sell prepaid debit card accounts through the POS devices at a retail store. That technology now supports our ability to sell GoBank checking accounts at a small incremental cost. So it's built on the same infrastructure that has run our prepaid operations over the past decade and a half.

Our proprietary mobile banking platform allowed us to quickly and inexpensively on-board customers directly from the mobile app or online, and our distribution through Walmart allows GoBank to acquire each incremental customer for cost per acquisition in the single-digit dollars versus a CPA in the hundreds of dollars for traditional banks.

Some key performance indicators for GoBank -- so, it's not yet known how GoBank will perform in the retail environment at Walmart. But in our second quarter earnings call, again, we provided some key performance metrics for GoBank accounts acquired over the first year in the online acquisition model. Some of those stats: our GoBank customers seem to be using this product as their primary checking account with deposits over \$1,000 per month; debit card spend over \$600 per month; and we're catching characteristics predicted to exceed three years.

So we designed GoBank to behave like a traditional checking account, and these types of early behavioral metrics indicate that that's actually how it's being used. We're really pleased so far.

Again, with no required monthly fee, these GoBank online accounts are trending towards earning an approximate lifetime revenue of \$400 per account. So that would be akin to our best customers on the prepaid side, our direct deposit enrollees on the prepaid side.



The GoBank retail version carries an \$8.95 monthly fee unless waived with a qualifying direct deposit, so I went over that.

And this is a key point at the bottom of the page, we've gotten a lot of questions. So, all revenues and importantly all costs related to this program launch at Walmart have been fully incorporated into our current 2014 guidance, which we gave a couple weeks ago when we announced the TPG acquisition.

So, just to give you a little history lesson on GoBank, in 2011 Green Dot became a bank holding company with the purchase of Bonneville Bancorp, now called Green Dot Bank. In 2012 Green Dot acquired Loopt, which is an early leader in mobile phone app development and the inventor of key mobile geolocation marketing patents, based in Silicon Valley. And then starting that year with the integration of Loopt into the Green Dot operations, Green Dot undertook a massive, multiyear reconstruction of its core technology underpinnings with the goal of evolving from a competent prepaid technology processor into a recognized leader in cutting edge mobile financial technology.

With the technology rebuild underway, Green Dot set out to successfully recruit the finest financial technologists and the best mobile product developers with the goal to build the most modern, most admired, and most successful mobile banking product available in the marketplace: GoBank. And once completed, this new technology product was wired into the infrastructure of Green Dot Bank to create an FDIC-insured mobile bank account that set out to redefine the relationship between customers and their money. So that's GoBank.

Now I will just switch gears and quickly touch on the acquisition of TPG, as announced on September 18. TPG, formerly Santa Barbara Tax Products Group, is a tax refund processing and settlement engine for eight of the top 10 leading consumer online and in-person tax preparation companies, or what they call EROs. The segment of consumers who utilize TPG's services are highly correlated to Green Dot's customer segment of low and moderate income American families. This past tax season, TPG processed 11 million refund transfers for \$32 billion worth of tax refunds. That was roughly a 50% market share of consumers that utilized a separate service.

And then more than 50% of all tax refunds loaded onto Green Dot prepaid cards in 2014 were processed by TPG. We also believe that a majority of tax refund dollars loaded to all prepaid cards industrywide were processed through TPG's platform.

So, again, we signed a definitive agreement to acquire TPG for about \$320 million in cash and stock. We expect to close the transaction during Q4 of this year. The transaction is expected to be highly accretive to our 2015 non-GAAP earnings per share, excluding synergies. It enhances Green Dot's revenue and earnings diversification and significantly improves our adjusted EBITDA margins and cash flow.

Our core business runs, round numbers, and about 20% adjusted EBITDA margins. TPG in fiscal 2014 generated \$88 million in revenues and a \$45 million of adjusted EBITDA, for roughly a 50% EBITDA margin, so, nicely accretive to the core business when we layer it in.

It offers Green Dot a significant long-term revenue growth opportunity by virtue of a new distribution channel to potentially sell our core prepaid products and checking accounts and other products into. I touched on that earlier. And then finally it provides Green Dot with additional financial resources to complete more accretive acquisitions. High cash flow generating model that we said on the call to announce the acquisition that combined with Green Dot would generate about \$140 million in pre-tax cash flow on a yearly basis. And our primary use of that excess cash would be to find more accretive deals out there.

And I think I'll stop there and take questions.

QUESTIONS AND ANSWERS

David Scharf - *JMP Securities - Analyst*

It looks like we got one?



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

Sure, in the back.

Unidentified Audience Member

(inaudible - microphone inaccessible)

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

So the question was just some more of the functionalities around GoBank. We will be offering check writing capabilities with GoBank for people that adopt our product and they request paper checks; that will be available to them. And that is different from our prepaid offerings which don't have paper check writing ability, but both --.

Unidentified Audience Member

(inaudible - microphone inaccessible)

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

Well, you get checks if you request them, but you get a debit card and you get the ability for online bill pay and online check writing, you get P2P functionality, mobile remote deposit. All the modern features that consumers expect in a checking account today, you get through the GoBank platform. Got one in the back there?

Unidentified Audience Member

(inaudible - microphone inaccessible)

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

Sure, the question was talk about GoBank from Walmart's perspective. And so, this is in addition to our main -- we have many contracts with Walmart. In fact, this is at least the fourth contract that I know of.

The main contract that a lot of people have -- that gets a lot of attention is the private label prepaid contract. That's actually up for renewal in May of 2015. I'm sure David may have a question about that.

But as far as this agreement with Walmart, they've introduced over the past couple of years new categories of financial services. Walmart has been -- they've been uniquely focused on providing financial services to their shoppers for many years, and they've been adding new products over the years. So, the initial offering in this alternative checking account category was Bluebird a couple years ago. That's a product that Amex offers through their stores. And so Walmart is adding GoBank as another offering within that category, and so GoBank will be sold alongside Bluebird in all their stores.

Unidentified Audience Member

(inaudible - microphone inaccessible)



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

Sure. There's a couple. GoBank is built on the MasterCard network. It's a MasterCard debit card, whereas Bluebird is built on the Amex network. And there actually are some big differences in acceptance between MasterCard and Amex, especially in low income neighborhoods and small merchant verticals. So we think there's a big advantage there.

Our customer service team has expertise in serving this demographic for the past 15 years from the prepaid side. So I think we may have advantages in serving this demographic versus what Amex's core competencies have been over the years.

And I know that Walmart is calling it the checking account alternative category, but GoBank is a real checking account issued by a real bank. I think Amex technically issues Bluebird out of their travelers division, so it's not issued out of their bank. And actually I think they actually partner with Wells Fargo as a third-party issuer to hold the deposits there. So there are some important implications for that. So I think it is quite differentiated.

David Scharf - *JMP Securities - Analyst*

Chris, I wanted to follow up on your best guess at ultimately how you reach the customer GoBank is supposed to reach. And more specifically, if I'm a Walmart shopper and I make my way to the financial services kiosk destination and I see the Walmart MoneyCard, prepaid product that's been there for years, and I see now this GoBank starter kit. Is there going to be cannibalization?

How am I going basically look at the difference between these two products? And I see they're both reloadable, they both waive fees when I direct deposit, they both have debit cards. How is the merchandising going to distinguish between these two products?

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

Well, I think if we feared a big threat of cannibalization, I don't think we ever would have envisioned GoBank to begin with. We really do view GoBank as attracting a truly incremental segment of our core demographic.

Again, prepaid has been really good at attracting unbanked and previously banked, but they can't get a bank account. So their friends or their family tell them about Green Dot, they buy a Green Dot card, and they like it. And these are people that have gotten in trouble with bank accounts. They've written bad checks, run up bad credit, so in many ways they don't trust themselves with managing their money.

And prepaid cards, by their nature, have guardrails set up so that people can't get in trouble. And that's the constant feedback we've gotten over the years with our prepaid cards. I love Green Dot because I can't get in trouble with it.

And other people actually -- one stat that often surprises people is on the prepaid side, about half of our active customers tell us that they do have a bank account in addition to their prepaid card, because some of the use cases for prepaid is budgeting or segmenting different funds. You might -- one common one would be that you have a checking account, you have credit cards, but you're concerned about using -- putting those numbers online for your online purchases. So you buy a prepaid card and you just put a limited amount on a prepaid card to do your online shopping, because you feel like that's your maximum exposure.

But GoBank is, again, it's a bona fide checking account issued by a real bank. And, again, it's targeted to people that they consider themselves checking account customers, but yet they are stuck in this checking account that just keeps hitting them with fees because they keep minimum balance -- their minimum balances are too low. They are paycheck to paycheck, and they often run out of money a couple days before the next paycheck so they get hit with overdraft fees. You can read about overdraft every day in the paper, it seems.

So, it's a segment that I think is incremental to prepaid, because in our experience people seem to be predisposed to prepaid or checking accounts, but not both.



Unidentified Audience Member

(inaudible - microphone inaccessible)

Chris Mammone - Green Dot Corporation - VP of IR

Again, we can offer this compelling fee structure because we have not invested in massive branch infrastructures. We have a very asset-light model, so --.

Unidentified Audience Member

Are you just denying purchases?

Chris Mammone - Green Dot Corporation - VP of IR

For that, yes. That's right, we just won't allow overdrafts to occur.

Unidentified Audience Member

(inaudible - microphone inaccessible)

Chris Mammone - Green Dot Corporation - VP of IR

That's right.

David Scharf - JMP Securities - Analyst

All right. I think we ran the clock down. Thank you.

Chris Mammone - Green Dot Corporation - VP of IR

Thanks, guys.

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