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GDOT - Green Dot Corporation at KBW Cards, Payments & Financial
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CORPORATE PARTICIPANTS

Steve Streit *Green Dot Corporation - Chairman, President and CEO*

CONFERENCE CALL PARTICIPANTS

Sanjay Sakhrani *KBW, Inc. - Analyst*

PRESENTATION

Sanjay Sakhrani - *KBW, Inc. - Analyst*

I'll start the process as Steve walks up. Welcome back everyone from lunch. Next up we have Green Dot, and with us today is Steve Streit, who is the CEO of the Company. As you guys know, Green Dot focuses on providing banking solutions to consumers with household incomes of less than \$75,000 a year, has been growing at a double-digit pace for a while, and it's really worked hard to diversify its sources of revenue. So please join me in welcoming Steve Streit, CEO of Green Dot.

Steve Streit - *Green Dot Corporation - Chairman, President and CEO*

Hello, good afternoon everybody.

Sanjay Sakhrani - *KBW, Inc. - Analyst*

I'll start off big picture. It's been quite a volatile stock of late and it has been for some time, but you guys have actually made a lot of progress from a fundamental standpoint, diversifying the model, growing it out. Could you just talk about the process from here, like what are the goals over the next three years and what can help kind of stabilize things?

Steve Streit - *Green Dot Corporation - Chairman, President and CEO*

Well, I think we need to get through some of the uncertainties. Look, as an investor, it's very fair to say, and I'm the largest investor of the Company, so I say this to myself, when I interview the CEO and myself. And the question is, well, what are the uncertainties? Clearly, there's a lot of questions remaining about will Green Dot renew Wal-Mart? If so, at what rev share? This kind of thing that's an uncertainty. And then this year, we have the removal of MoneyPak which we said in the call would be at the high end, about a \$40 million impact to revenue and about a \$10 million impact to EBITDA, but that we're not sure, right. It could be higher, we don't know. And so these are uncertainties and nobody likes uncertainty in investing. As we get past those uncertainties and we're able to provide clarity on Wal-Mart, good, bad or indifferent, as we're able to provide clarity on MoneyPak, good, bad or indifferent. I think folks, investors and others will focus on what the fundamentals of the Company are which is that, it's a pretty cool company that has created a 100,000 branchless bank network with a lot of customers, an iconic brand name and fabulous technology asset and then it's up to management to help explain what our plans are with all those assets that we worked so hard to build.

Sanjay Sakhrani - *KBW, Inc. - Analyst*

I agree and when we think about how the model might evolve, after we get through some of these headwinds, is it going to look very similar to the way it is or are there other business areas that you might get into?

Steve Streit - *Green Dot Corporation - Chairman, President and CEO*

So the Green Dot that lives in the brains of the team and senior management that run the Company and I'm thinking about Alok Deshpande who runs the product and the way I think of the Company and the way all of us come together and kind of think about in marketing what we're looking



to do is we want to build a really significant branchless bank that offers of course our deposit products and we have a number, as you know, checking accounts in our prepaid card. But also have the opportunity that requires regulatory approval, as I said in the earnings call to do certain kinds of credit products that we think are appropriate for this customer base. We can't do anything risky or terribly unsecured because of the nature of our bank and the kinds of customers that we serve and at the same time, we know our community so well, is that there is a --I'll share with you a vision statement which may be helpful to our listeners and viewers. And that is we want to be the USAA of the low and moderate income American. If you think about all the different products and services that a bank can sell its customer base beyond the checking account or in our case, a prepaid card and the checking account and over time, layer those in, the opportunity is compelling, because once you have that customer intake channel, in other words, the ability to on board millions and millions of customers a year which we do and our brand name that has meaning and value and trust in the community, the opportunity to offer more products through that channel is very compelling. So, in our mind lives a Green Dot that is a leader in prepaid, as we always want to be, a leader in mobile technology and mobile banking, which we are increasingly becoming with GoBank, a company that provides the kinds of essential and foundational products that our consumers need that any bank affords its customers, it's just that in our world we only care about low and moderate income Americans, which is a little niche of about half the country and so that's the niche we care about and everything we do is obsessive about serving that customer base.

Sanjay Sakhrani - KBW, Inc. - Analyst

So as far as like the Wal-Mart negotiations, I guess the contract you have right now currently and at the end of the year, do you expect to have finality on that by that point? You theoretically should, but it could probably be extended as well, right?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

So I'm trying to think what I can say because I know we're in public session, but I don't think it's a news making session. The answer is that the contract goes to the end of the year and we always work hard to renew it. And we'd love to renew it. And just based on the operational vigor and the size of that program, I would expect that you would not wait up until the eleventh hour on December 31 to find out, but beyond that, I'm not sure I can really give any public guidance, except to say that we'd love a positive outcome and we'd love that positive outcome sooner than later. How's that for (multiple speakers)?

Sanjay Sakhrani - KBW, Inc. - Analyst

I guess, one of the questions I get a lot of from investors is the second derivative impact of the Wal-Mart negotiation, whatever way it ends up being. Do you feel like there is other impact after Wal-Mart gets negotiated in other relationships with your customers?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

I'm not sure, Sanjay, but you mean customers meaning the end consumer or you mean other retailer?

Sanjay Sakhrani - KBW, Inc. - Analyst

Retailer.

Steve Streit - Green Dot Corporation - Chairman, President and CEO

No, I don't think so. Our relationship with Wal-Mart is certainly very well known. I think all the retail partners feel good about that. In other words, it implies a sense of size and scale and sustainability to our Company. And I think that in terms of our rev shares and what not, all of our retailers make good money selling our products and they appreciate also that our fees and everything else are better, they are good for the consumer as well. And it's very much a scale play or a volume play there. The pricing is in some ways very volume tiered. So, no, I wouldn't expect any negative

blowback and every negotiation, if you will, we have with a retailer, whoever that retailer maybe, we're always respectful and honest with it and we always try to do the best we can for that retailer and at the same time preserve economics for ourselves.

Sanjay Sakhrani - KBW, Inc. - Analyst

Okay. Shifting gears a little bit to kind of revenues and you have kind of alluded to the MoneyPak discontinuation, and some of the Wal-Mart MoneyCard impact. Now that we're kind of well into the first quarter, are there any anecdotes around kind of how the MoneyPak discontinuation is trending, anything that you could provide us in terms of that? And then also the tax season, I mean that's an important component of your business now.

Steve Streit - Green Dot Corporation - Chairman, President and CEO

It is, yes.

Sanjay Sakhrani - KBW, Inc. - Analyst

We're pretty far into the first quarter, maybe you could just talk about how the tax season is progressing as well?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

Sure, on the MoneyPak side, and we'll have a better update on the Q1 call. But we said in the previous call that we thought it would be at the high end of that \$40 million and we still feel good about that guidance. So we're not seeing anything so far that would cause us to block that model and revisit it, but I also want to caution and I know we have these warnings all of our decks and everything else, with MoneyPak, we're changing an ecosystem. It isn't just about Green Dot, we are the DOS, we are the operating system or there is an old word (inaudible) DOS. But we are the operating system for the entire prepaid industry, there are hundreds of programs that use our reloading network, not just our own bank and whenever you're changing an ecosystem, it's always wise to wait for that to play out to see where it goes. But so far so good on that.

On the question of tax season, our tax processing division, TPG is looking a little bit slower. If you look at the, I don't know if you track, for those viewing the tax industry and look at the press releases from Liberty or H&R Block and others and the IRS itself, tax season is off to a slow start in general and that slow start would be reflected in TPG's results because we're a processor for that industry. So in that regard, we are in line with that and so it may well be that if we don't make it up in March here and there's been some theories about good weather, bad weather, this or that, you don't know until you know, but if we don't make up that this by the end of this quarter and we could be a million or two light on TPG and if so, we are, we always try to, as you know, for those of you who know Green Dot, we do our best to give ourselves a wiggle room and so but it could be that if at the Credit Suisse Conference, for example, I said (technical difficulty) 30% of our revenues, which was \$225 million at the midpoint, it could be that we end up a million or two below that if we don't see that improvement.

Sanjay Sakhrani - KBW, Inc. - Analyst

So now that you've had some time with TPG under your belt, I mean, like could you just talk about how that acquisition has panned out relative to your plan and you know, kind of where the growth opportunities are within that business?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

Well, it's our first tax season. So this is the first time we're reaping if you will the rewards of owning that company and it's been good. They have a great senior management team, we're integrating well. Every time, for those of you who've ever operated a company, there is a great acronym that it runs actually from GE but I use it all the time and it's called forming, storming, norming, performing and you go through those four stages

every time you by a company. Forming, you announce a new store, meaning: No, I'm more important than you. No, you're not going to tell me. And then you go to norming which is: Okay, I get it. You do this and I do that and you start performing. And we're already at that performing stage and we sort of hit fast forward to the first three stages of M&A and I think it's going well. I like the team. They like us. The Green Dot Holding, if you will, is providing a lot of value to them and they're providing a lot of knowledge and value back to us. We won't see any opportunities for revenue synergy as I announced when we bought the company until the 2016 year, which should be the 2015 tax season and if we're successful, it'll be awesome. If we could sell our incredibly good GoBank products or our Green Dot prepaid products into customers at the time of our tax refund transaction when you're at the desk or you're online and it's our goal here now to get to the offseason to try to sell those products in and see if we could make some hay out of that come next year.

Sanjay Sakhrani - KBW, Inc. - Analyst

That makes sense. I guess, transitioning a little bit towards growth, the Green Dot branded cards continue to grow at a double-digit clip. I mean, how should we think about the long-term growth rate of that business?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

So, it has done well and the Green Dot brand in particular is becoming more and more of the standard defining name of that product. And so we have been very fortunate to see increasing sales even at stores where we've been for 13 years, 14 years, the Rite Aid's and the CVS' of the world and the Walgreens' of the world. So, that's been a good thing.

What the long-term growth prospects I think entirely depends on how effective we are at mainstreaming that product. The macro of American households earning less than \$50,000 a year is getting bigger. There's no question that America is becoming more and more of an LMI country, which is not a great thing for a country which I love and its people, but the great thing for our business because we're positioned to service that community. And so to the extent we're in the right macro, I don't think there is any argument about that. I think that's the case.

Now the question is, can we come up with the right products, more products, the right kind of marketing messages and the right kind of mainstream appeal to convince ever increasing numbers to continue to acquire prepaid cards and we've done that for a long time now. And my expectation is, we can continue to do it, but as a product person in a consumer market, you never take that for granted and so that's something that we work at hard every year in terms of tactics for growth.

Sanjay Sakhrani - KBW, Inc. - Analyst

Which channels are actually are the places where you're seeing the most growth? Is it all of the various channels you have or are there specific channels that are better than others? And then, are the newer channels that can, from an origination standpoint, that could be introduced?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

Well, new channels grow faster, but they're growing off a tiny base. Yes, I mean, if you look at our FSC division, which is the check cashing stores, that would be growing very, very rapidly, but we started from nothing. If you think about our legacy prepaid business that sells millions and millions of cards that at scale becomes harder to grow at the same rate. But we've been fortunate to see growth not in all divisions, you always have some that are doing better than others, but growth across the platform and some contraction in others as we've talked about in the call like with our reload network with MoneyPak and so it averages out to that growth that we forecast. The forecasted growth in 2015 is very, very large because we've acquired companies and that all goes into the mix and because we've had good solid organic growth on the Green Dot brand.



Sanjay Sakhrani - KBW, Inc. - Analyst

I want to go back to the Wal-Mart, and I'm sorry to belabor the point, but just in the process -- if the process ends up that they choose another partner, how quickly can you rightsize the business to live without them?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

Well, in the event that we were not chosen as the ongoing provider and we always have to recognize that these things can happen, we have a thoughtful plan in the building of how we would rightsize the Company to make sure that we can maintain respectable margins going forward. It's not new, companies have done it. It's a -- as a CEO, it would be an ugly exercise. I don't think I'd wake up excited about it. But you'd have a five-year period, a very predictable decaying revenue off that program would disappear overnight and over that five-year period, you would need to match your decaying revenue with decaying expenses and that would be your fixed and known expenses associated with serving that account. And then, it would be -- the hardest part would be rightsizing your shared fixed expense. Green Dot is an at scale company. If you would need to take measures to rightsize that shared allocated portion of your fixed infrastructure and that would be never fun in the hypothetical situation that we do not get renewed. But you'd have to do it and that's a fact we face. Remember we're bank holding company. So disaster planning and risk management is a significant part of my job as a CEO of the bank holding company. So it isn't trivial and is something we think about, and then we're hopeful that we won't have to ever deploy those kinds of plans.

Sanjay Sakhrani - KBW, Inc. - Analyst

I guess, when we think about competitors to Wal-Mart, no one has actually successfully been able to build a product like Wal-Mart has. I mean, is it possible that others could contemplate it? Newer participants that might cater to a comparable demographic. I mean, can they create a program like Wal-Mart have?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

Well, I'm an optimistic guy. So can is a very open-ended word. We've had tremendous success working with our partners at Wal-Mart to build a program which continues to be the largest program in the country, only matched in size by Green Dot brand. So between the Green Dot brand and the Wal-Mart brand, you would have a far climb down the hill to get to the next program. So we've had success at it. But we're never cocky about it, we never take it for granted. We always believe that there is somebody better, smarter or brighter and so we always want to operate with a bit of paranoia. I think paranoia is helpful frankly in running a company and it keeps you on your toes. And so we never want to take our past success for granted. So could other companies have a better idea? It certainly could be and we're respectful of that, but at the same time, we certainly always work hard to make sure we maintain our market leadership.

Sanjay Sakhrani - KBW, Inc. - Analyst

And when we think about the margin, taking out Wal-Mart, I mean, what do you think is the sustainable rate or what is a good long-term margin assumption for the business, the underlying business?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

We said about a year and half ago when we had a Investor Day back at the office in 2013 I guess that our goal -- at the time, by the way, the margins of the company were 17% or 18% and we said that our goal over the next three years is to have a margin with a two in front of it. And we've done that fairly quickly and maintained it. Now this year, we're at a blended all-in margin of [21.5% or thereabout]. We can do better or worse than that, but that's our guidance and so depending on if we renew Wal-Mart and what the new rev share would be, that could become a headwind to that. That's why we always have other plans to either acquire companies or roll-out new products at a higher margin and to make sure we have a number of cost control levers that we can pull to ensure that we stay in that 20% or greater margin. So it's hard for me to say with precision and guide in

the future. But generally, we want to be a 20% plus margin company. We've done that historically at many times and we're going to continue to do our best to achieve that over the long term.

Sanjay Sakhrani - *KBW, Inc. - Analyst*

And just thinking through the acquisition environment and kind of what you would look for in an acquisition, could you maybe just talk about what might be something that you consider? Is it in the same vertical or is it -- could it be an adjacent vertical?

Steve Streit - *Green Dot Corporation - Chairman, President and CEO*

Both. And we've bought both. Remember, we view our world not as a prepaid company but as a bank holding company that services American households earning less than \$50,000 year. So what financial products and services and capabilities might that consumer value? So, yes, there is other prepaid companies we bought as you know. But there's really not a lot left to buy. We bought anything that we think was good. There's only one more player out there that's a stand-alone player. That's a smaller company, but a good company and that maybe one we have interest in down the road, but there's really not a lot left in prepaid. That industry, a year-ago we said we expected it to consolidate and that I think is actually played out that way. So outside of Green Dot and the NetSpend which is now owned by TSYS, there's really not a lot there to buy. But TPG is a great example of tax processing and tax refunds and tax preparation. That's a great kind of allied space for our customer segment. Down the road, there could be other companies. Mark Shifke is in the room, who runs our mergers and acquisitions, comes up with ideas, some we like, some we don't. Deal flow and M&A is somewhat uneven by its definition and you'll go through a six-month period where you have all kinds of really good deals and you're trying to figure out which one you want to do first and then you'll go for eight months where you can't find anything worthwhile to buy. And so you can never rely on it but we always have our eye out for things that make sense, given who we are, given our character as a company and given our customer segments.

Sanjay Sakhrani - *KBW, Inc. - Analyst*

When we think about the two prepaid businesses you have acquired recently, could you just talk about like what attracted you to them and how they might've strengthened your model?

Steve Streit - *Green Dot Corporation - Chairman, President and CEO*

Sure. A lot of the companies we purchased in prepaid, those two and we've done smaller ones over the years, the goal there is to find companies that on a standalone basis are either EBITDA neutral, maybe you're losing a little bit of money or they're making a few million dollars of EBITDA, but nothing that's going to rock your world fairly immaterial to the mothership. But when you put them together into our scale and our bank, and our ability to process inexpensively, and have large risk and compliance efforts and all the things that cost smaller companies money, we're able to make a lot of money at that and so, in particular, for the two you mentioned AccountNow and Achieve, good companies, well run companies, good entrepreneurs. In the case of Achieve, a young man named Sam Reed is one of my more favored young entrepreneurs, great company but there is a good example, not making any money but a sound product, a good customer acquisition website, a good customer base, but the cost of doing this kind of industry, financial services and not being at scale is just impossible. And as you see new regulations coming into play, if you're a smaller company, you're looking at all the new requirements of potentially Reg E and certain other kinds of fee policies that the CFPB has out there for review and you realize that the cost of running a financial services company is getting more expensive, not cheaper and that's why a lot of those assets have recently come onto the market but at our size and scale, you can buy a company like that, put in through your system and generate a fairly significant EBITDA margins on a company that standalone may have been negative margins.

Sanjay Sakhrani - *KBW, Inc. - Analyst*

And do you intend to rebrand those cards or they just stay under the old brand, I'm sorry?



Steve Streit - Green Dot Corporation - Chairman, President and CEO

Generally, we don't rebrand. There is a reason why somebody is buying an Achieve Card, for example, and an AccountNow Card and choosing not to buy a Green Dot brand or a Wal-Mart MoneyCard brand card, whatever that reason is, I've run for many years a consumer products, I don't know and I'm not sure I care right away. We don't want to mess up that mix. And so you want to keep the brand and you want to keep the flavor of that. You just want to consolidate all of your operating activities so that you have the lowest cost pricing and you make it more efficient.

Sanjay Sakhrani - KBW, Inc. - Analyst

So, we're little past the halfway point and I wanted to open up the floor for questions from the audience. So any questions, please raise your hand. One back there. One over here.

QUESTIONS AND ANSWERS

Unidentified Audience Member

What are some examples of financial products and services where penetration should increase among the low 50k households?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

Well, if you think about the macro, you have, first of all, what we call foundational products and a foundational product is a deposit account, you would call it a checking account or a prepaid account. And today, while Green Dot has made tremendous progress in banking, if you will, the unbanked or the under-banked, it's a big country and we have a long way to go. There are cultural barriers we need to learn how to break down, there is more education about these products and we need to always continually do a better job with our marketing to attract more of our consumers to just that foundational entry level deposit account. So that's one. The checking account is a little bit of a different market and that's -- but the same kind of concept behind that. We think foundational credit is a big need in our country. If you have a FICO score of 750 or 800, you're making a 120 grand a year, you're not overextended on your credit, you can get the credit card. You can go to Capital One or Chase or Bank of America or US Bank, apply for that loan or that credit card and generally get it without any concerns. If you're my customer, you can't do that. You have a FICO score that's somewhere in the 4s or 5s, you don't have a lot of expendable cash and it takes a special kind of bank that knows how to underwrite that, has the right technology to minimize costs of acquisition and to get that working in the market and we think we have the assets and the opportunity with regulatory blessing and approval to do that one day. But that's an example of a product that would be so helpful to so many millions of Americans who today either have payday lending as a choice or nothing as a choice. And we think that's a big, big opportunity for us to fill with a pro-consumer credit product. Down the road, there could be other products that we've entertained, but nothing on the near-term horizon. Insurance is something that every state requires by law if it's auto insurance. There's other kinds of life and essential foundational insurance products that maybe natural tie-ins to a bank holding company like ours for down the road. So we're always sort of pulling our customer base and thinking about what else makes sense. What else do they use every day that they would view as being credible, being purchased from a bank and if it make sense, we explore it.

Sanjay Sakhrani - KBW, Inc. - Analyst

One here and one up there.



Unidentified Audience Member

How do you think about pricing? And I know this might be theoretical at this point, but if you're going to extend credit to that demographic, how do you think about the regulatory pressure that others have seen relative to pricing that you look to achieve and obtain a sufficient return on your capital?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

Right. So, the good news is that we have a large customer base today. We have about 5 million, give or take active customers. And then a lot of other millions of customers who are not active. So we have a low cost infrastructure to start with. You don't have to -- to acquire a Green Dot product, you don't necessarily have to spend in the way a Chase might have to spend to acquire a [USA] credit card customer. So we're starting off with a lower cost base to begin with. But to be sure, when you're designing products for low and moderate income Americans, you want to be fair, you want to be transparent, you want to be on the right side of the political concerns and justified concerns of how you serve low-income Americans. That's something that Sanjay knows and some of you who may not be familiar with our company but, yes, we're a company and a bank and a public company and a for-profit company, we're also very big into consumer advocacy and we advocate on behalf of our customers. We believe we have almost a paternal responsibility to protect our customers and to help them choose products that don't rip them off. And I'm proud to say that Green Dot does that really, really well. And we've had a long-standing policy of consumerism over our 15 years in existence. So we care deeply about our customers. They know that, that's what makes the brand have the hue it has and so any credit product that we ever were to roll-out, assuming we got regulatory approval to do so, would have pricing that was beyond reproach and highly sustainable.

Sanjay Sakhrani - KBW, Inc. - Analyst

Other questions in the audience. One right there.

Unidentified Audience Member

Are there any plans to expand your products internationally just given the large unbanked population, Mexico for instance?

Sanjay Sakhrani - KBW, Inc. - Analyst

Canada?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

Oh gosh, yes, we have a -- well, Canada is highly banked, I guess. They have some of the prepaid there but the answer is yes, kind of, sort of. So, yes there is a lot of folks who could use our technology, especially our mobile technology which is pretty good, in all parts of the world for lots of different things. So that's the yes. The other part of it is that it's complex and rightly or wrongly, I try to stick to my knitting and I tried have our Company stick to its knitting in terms of its skill set, its capability and what makes a success from the US may or may not translate into another country with those banks rules and with the incomes of the people alone in that country. But we entertain those discussions all the time, clever -- bankers come and picture those opportunities all the time and because I'm chicken, I would likely -- before building something, would likely buy something if we thought there was a sure home run in another country. But there's so much opportunity here in the US and as big as we become, we're still just a tiny part of that half of America that I always find it more interesting to find out how I can excite people in Pittsburgh before I excite somebody in Brazil. But that doesn't mean that there aren't good opportunities internationally and we certainly look at those and explore those all the time.

Sanjay Sakhrani - KBW, Inc. - Analyst

Question back there.

Unidentified Audience Member

So, as a consumer, one big difference that I see between a prepaid card and a credit card is the reward. Can you talk about introducing some kind rewards program or loyalty program? Is it even feasible or pros and cons of it?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

It's a good question. Rewards are very, very difficult on any debit card, let alone a prepaid debit card and very, very few banks nowadays have rewards if they ever did on debit card. You see a lot on credit cards because they're typically fees, the interchange rates are higher on credit, you're charging an interest rate on top of that, there's other kinds of late fees and over limit fees. So credit cards are just very profitable products relative to a debit card. So credit, you have a lot of rewards and lot of usage. On prepaid, if we could ever do it, we certainly would look at it and there may be some cost effective ways to build a loyalty or rewards program. But for us, the best reward we give our customer is our low pricing, fair pricing, no overdraft fees or penalty fees of any kind ever and a very consistent user experience. But we always look at ideas and always entertain those thoughts.

Unidentified Audience Member

Steve, could you talk about how you intend to build out an underwriting capability for the loans that you might issue in the future?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

Sure. So if you think about controlling risk, which is the same question, we've done a very good job of correlative analysis and building correlative analysis to predict risk on our deposit holders. In other words, if you want to -- if you think lending money is risky, think about a GoBank checking account on sale at Wal-Mart, the world's largest retailer, that has the ability to deposit a check by taking a picture of it with your cell phone, right. So these are the kinds of things that every day we face in deposit risk of how do you know that this customer is more likely to give you a bad check than that customer who is more likely to give you a good check. And the answer is, you do it in small pilots, you do get ripped off, you learn about how you're getting ripped off if you will, and you build correlative models that you refine over time, and then when you get the risk down, you pull it out nationally. I don't think it would be much different than what we look at in credit. Some credit programs would be secured, in which case is very little risk to the bank, because the credit line is fully secured by an offsetting security deposit. Unsecured lines of credit would be far more careful with and you need to budget a certain amount of money knowing you're going to lose a lot of it, but you have to do that to build a correlative data to feed the beast, so that our data scientists six months or a year later can say, okay, we now know with certainty if a customer behaves like this, does this, acts this way, we believe they're going to pay you back, and if not, not. And so you don't have that information on day one, but that's how you go about it and it's a fairly time-honored way to build those correlations and we have wonderful fellow named Harsh Sangani, who runs our Data Science Group, and we've had a lot of successes in that group and I have confidence that we'll have some more.

Unidentified Audience Member

I guess, the regulatory environment is something that's worth talking about. You've had the CFPB proposals come out. Could you just talk about how that impacts you guys and the broader market understanding it doesn't impact you as much as it might other?



Steve Streit - Green Dot Corporation - Chairman, President and CEO

Well, the CFPB for those of you not familiar with it have a what's called an ANPR, which is the Advance Notice of Public Rulemaking. And then there is a common period for any federal agency that goes around that. And that common period for the rules affecting prepaid expires I want to say March 23, so coming up shortly. And then there'll be a discussion and the Bureau would take all the comments into consideration, and finally announce a rule that came out of that. And the rule is large, it's 800 or 900 page document. So I'm not going to attempt to summarize it here at the room but essentially it's about consumer fairness. We're on record publicly supporting the CFPB's rulemaking. We think they're on the right track. There may be some operational things that have to be adjusted and they would be the first to say that I think, but it's a well put together document. It's a thoughtful document and it surrounds areas of disclosure and all the things you'd want as a consumer to be treated fairly about. The most controversial one is the elimination or the effective elimination of overdraft penalty fees charged on prepaid cards and for players that have those fees, that could be quite impactful. But we're very supportive of that and in the first commentary wrote a letter to the CFPB that says we urge the CFPB to get rid of overdraft fees on prepaid cards. This was a product that I invented when I was in my house 15 years ago and was designed to be a service for low and moderate income Americans. Well, you can't serve that single mom with two kids if you hit her up with \$35 overdraft fee because she went over \$3 at a restaurant. That's not fair to her. It's not good for the long-term sustainability of the product and we were very pleased to see that the CFPB ultimately developed a mechanism for eliminating those fees. So depending on the company you're looking at or the [with the] old phrase, whose ox is getting gored, it's either a great body of rule making or not, but for us, we found it to be fair and thoughtful.

Sanjay Sakhrani - KBW, Inc. - Analyst

I have one more question. Any other questions in the audience, want to make sure. One right here. Wait for the mic.

Unidentified Audience Member

Steve, can you talk about your attrition rates with customers over the last maybe three years, especially since you know there's been talk of the heightened competitive environment?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

Right. So as we've talked about on the calls, our usage metrics have gotten better and our retention has gotten better among segments. We're a highly segmented company. So, there's a great expression in math for those of you who like statistics. First of all, I'm sorry and number two, if you like statistics, there is an expression you may have heard that average is lie. Have you ever heard that? Average is lie. So when you have a company with lot of segments of statistical groupings, the average retention is a tough metric to look at to get any predictability. But if you look at only direct deposit customers versus only cash reloaders versus one and done users, our cash reloaders and direct depositors have increased their retention. That's one of the reasons our margins have expanded and because you have more of revenue drop into the bottom line on an existing account and our GDV grows every year. So it's gotten better for us, despite the competitive environment. Now, one could opine but you'll never know, okay, but if there had not been competition, would you have grown better, you know, who knows. But we've done well in those areas.

Sanjay Sakhrani - KBW, Inc. - Analyst

And when we think about -- when we look at pricing across your products, those have come down quite substantially. I mean, how much more can that pricing come down? I mean, do you feel like we're kind of at the point where there is diminishing returns?

Steve Streit - Green Dot Corporation - Chairman, President and CEO

Well, we are and I don't know that it will come down. And in fact, GoBank that we released is the most expensive product, not the cheapest we've ever had with \$9 monthly fee and the consumer reviews on that product had been fantastic and the adoptions has been good and we on the



earnings call talked about retention, some of the usage metrics, which are really quite good. So the answer is we don't know that pricing coming down. American Express has very, very good products, which serve in Bluebird. They perform well, they work well, they're well designed and they are essentially free, but that doesn't mean that consumers don't buy Green Dot products in large numbers. So I think the answer is that you're going to see value increase on these products, but value is not just a function of price, value is a function of features and the user experience and availability and all those kinds of good things, and so we're always certainly focused on being the value leader, but I don't see prices coming down and in fact we haven't changed our prices good or bad since 2009 on the Green Dot side, and on the Wal-Mart side, they were except for the new batch in 2013, basically the same since that same [date] range. So we don't see a lot of movement with pricing.

Sanjay Sakhrani - *KBW, Inc. - Analyst*

I want to ask a question about the brand because you're right, like people don't choose necessarily the lowest cost product many times as we've seen with your product. How do you -- how does your brand separate itself from everyone else? Like people tend to gravitate towards your brand, I mean, what's been the keys to success there?

Steve Streit - *Green Dot Corporation - Chairman, President and CEO*

Well, the Green Dot brand has a clear preference with consumers and that's now been well proven, both in the market and the research and we have pricing power, because our pricing is what it is, we haven't changed it in the face of competition and sales have increased and [I didn't have] the Green Dot brand products did very well at Wal-Mart, even though our Wal-Mart branded products also provided by Green Dot are materially less expensive. So I think when people look at our brand much in the same way that you shop at a men's clothing store that you may like or women's clothing store, the fact that you may like a certain brand of product that you use every day. You like it because there is something about the brand that gives you comfort, that gives you assurance, that brings value to you in whatever way that is. And so if I'm an American Airlines' frequent flyer, which I am, it may well be that United has that same route from New York to LA \$400 cheaper, I don't know and I'm not even sure I care. So really the selection of how you choose your products in your world is not different than the way our customers chooses our products. When you go up to a rack and you see the Green Dot brand, your mother may have had it, your sisters and brothers may have had it, you see it on TV and promoted by personalities who you know and respect, your neighbors tell you it's good, your own experience with it has been positive and therefore that brand keeps you coming back for more. And if you think in your own world that you would be highly unlikely to change your brand of a product because something was \$1 cheaper or \$2 cheaper. So brands are very hard to build, easy to destroy unfortunately, but if you have a great brand and you treat it with love and respect and that's how we think about I think of a brand that's having human characteristics, that brand can serve you well and we think that Green Dot brand has proven quite popular in the market and we're very proud of that.

Sanjay Sakhrani - *KBW, Inc. - Analyst*

Any other questions in the audience. Want to make sure we get everyone involved.

I guess one final one, as we're wrapping up. I mean, you guys have been spending a lot more on retention and that's an important component of the growth because having higher retention helps the growth obviously. Just how long do you expect that heightened level of retention investment to continue?

Steve Streit - *Green Dot Corporation - Chairman, President and CEO*

Well, when you're saying invest in retention, I would -- maybe the way we invest and it's a fair statement is through fee waivers and free ATM networks and those kinds of things and that's all fair. And those will never go away. The question is do we have pricing opportunities, on the fees we do have that consumers feel is fair and appropriate relative to the value they get for the product. So we'll always invest, if you will, in providing services that our consumers find important. Would you use a bank if they had no free ATM network? No. Our customers doesn't want to use a bank without a free ATM network. So we always want to provide those valuable tools and if they cost money, they cost money and then you have to



figure out how you make it up through ongoing usage or other kinds of cost control and everything else. And we've done a good job over that over many years but we'd never stop ensuring that we're the highest value product available. I think that's an important part of our sustainability.

Sanjay Sakhrani - *KBW, Inc. - Analyst*

Great. Well, I think we'll stop right there, since we only have a little bit of time left. Thank you very much Steve, appreciate it. Thank you.

Steve Streit - *Green Dot Corporation - Chairman, President and CEO*

Thank you everybody.

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