THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

GDOT - Green Dot Corporation at Jefferies Global Technology, Media & Telecom Conference

EVENT DATE/TIME: MAY 07, 2014 / 6:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Chris Mammone *Green Dot Corporation - VP IR*

CONFERENCE CALL PARTICIPANTS

Ramsey El-Assal *Jefferies & Company - Analyst*

PRESENTATION

Ramsey El-Assal - *Jefferies & Company - Analyst*

Okay. So, today we have with us Chris Mammone at Investor Relations at Green Dot. I've definitely been following the Company since the IPO and there's rarely been a dull moment with lots of going on in the broader prepaid space. And Green Dot sort of nimbly navigating a really dynamic marketplace.

I think we're just going to jump right into Q&A today. And wanted to start with a couple questions about your largest customer, Walmart. Revenue concentration there is pretty meaningful. But it ticked down by several hundred basis points from the peak.

Looking out, let's say three to five years, where do you see that revenue concentration landing? And maybe what might be the drivers in terms of other parts of your business that might sort of pick up to off -- to change the mix?

Chris Mammone - *Green Dot Corporation - VP IR*

Sure. Thanks, Ramsey. Walmart is -- they're unique in that more than any other retailer they have a focus on their stores as being a financial services destination for their shoppers. So they've just proven to be the most effective venue for selling these products.

And so I think at some level they're always going to be a very significant portion of our revenues. And it's almost impossible to sort of outgrow Walmart because anytime you want to introduce a new program or a feature, any sort of compelling tweak to what you're offering, how do you not offer it to Walmart? Because you know it's going to sell like hot cakes in the stores.

So I think it's sort of the nature of the business that they'll always be a significant partner in the mix. Now, that said, we did roll out 27,000 new retail locations towards the end of 2013. And those were all non-Walmart locations. Notably, we rolled out our products to the Dollar Store chains: Dollar Tree, Dollar General, Family Dollar.

So to the extent that we can seek good growth out of those retailers, that might, over time, help to bring down the concentration numbers. And I guess leave it at that.

Ramsey El-Assal - *Jefferies & Company - Analyst*

So, and I know you talked about this on your earnings call just a bit. But those 27,000 new locations that sort of Dollar Store type channel, that's tracking well?

Chris Mammone - *Green Dot Corporation - VP IR*

Yes. It's very early on. It's hard to make any definitive calls yet. We just sort of rolled out into all those new retailers at the very tail end of 2013. So the way the portfolio works, that it takes time for those cohorts to sort of develop and mature into great revenue-generating portions of your business.

So I'd say early indications are that we're selling cards at those stores at reasonably healthy clips. And hopefully a lot of those customers will turn into longer-term users of the product. And we'll really start to see a meaningful impact on our revenues over time.

Ramsey El-Assal - *Jefferies & Company - Analyst*

Back to Walmart for just a second. So, I think it was incrementally kind of encouraging for investors when Walmart basically moved their processing over to your bank. And also to see you roll out a pretty comprehensive suite of products there.

Can you kind of go back a little bit and talk about what were the rationale and the reasons behind both of those moves? Like, why did Green Dot -- or why did Walmart kind of put their cards at your bank? And also, what was the rationale behind wanting to re-launch the product?

Chris Mammone - *Green Dot Corporation - VP IR*

Yes. So, I think -- yes, there's a couple major milestones that we've accomplished together over the past really six months on that partnership. The bank -- I guess if you go back to history, when we first formed the relationship with Walmart back in 2006, we weren't a bank.

We were a much smaller company back then. We were a program manager. And so it was necessary to bring another bank into the fold. That being GE Capital at the time, which also issued the Walmart credit cards. So GE was the third-party issuing bank for many years.

And then in 2011, we became a bank-owning company. And we bought a small bank in Utah and now we're a Fed member bank. And so I think the situation changed materially that we as a bank-owning company could handle the portfolio.

And I think with GE, they never really, I think, focused on the prepaid issuing space as a major strategic focus. I think the Walmart program was more of one-off for them. And so I think all three parties came to an agreement mid-2013 that now was the time to sort of consider moving it from GE to Green Dot Bank. And so all three parties signed off on it.

And then on the re-launch of the money card, which happened last fall, we went from basically I think six facings in the Walmart aisles -- in the prepaid card aisles at Walmart to 14 or 15 facings. We went from sort of a one-size-fits-all approach with the money card to more of a targeted approach which is what we're calling Basic Plus and Preferred.

So it was a major re-launch of the program. And one that we pulled off, again, over the course of a couple months in the fall. That's just part of innovating and just constantly looking at ways to improve the program. I think it had been a couple years since we made any major changes to the program. So this was a major initiative that we launched together.

Ramsey El-Assal - *Jefferies & Company - Analyst*

So American Express, obviously, launched the Bluebird product some time ago. And recently they came out with an announcement that they're putting another face in the stores, the Serve product.

First of all, any initial read? You gave a little bit of color about Serve's performance, in your view, at least, in other retailers where it launched out. Any initial take on impact to your business at Walmart?

Chris Mammone - *Green Dot Corporation - VP IR*

Yes. So we noted that Serve has been on sale at a lot of the same retailers as Green Dot branded cards -- CVS, Walgreens, Family Dollar, some others -- for several months now.

We noted on our conference call last week that in the March to April period for the retailers where we have third-party competitive sales data, we're outselling the Serve card by a 10 to 1 margin. So we feel pretty good about them taking a very minimal portion of our market share, despite being on the same prepaid racks.

Way too early to have a read on what's going to happen at Walmart with Serve. I think that they just made that announcement two or three weeks ago. And at the time I think that was the time that they were sort of introducing the Serve card into the stores. So it's going to take some time to sort of see what, if any, impact that has at Walmart.

Ramsey El-Assal - *Jefferies & Company - Analyst*

And as kind of a follow up to that question, I think you guys have done a great job putting out kind of metrics showing that sort of fee-for-fee and brand-for-brand, Green Dot actually does a pretty good job sort of holding its own in the marketplace.

I guess the question can kind of become shelf space. And do you perceive that with Serve you're losing ge -- shelf space or j-hooks or -- and I guess then and more generally to what degree is that an important battleground? Is it as important as the -- whether the products are competitive? Just having them on the shelves? Or --

---

Chris Mammone - *Green Dot Corporation - VP IR*

Yes. I think we -- in 2012 there was a major change to the competitive landscape. So I'll start answering the question this way. Where we -- Green Dot had previously been the exclusive prepaid card brand sold across most of our retail footprint.

And then that all changed in 2012 where we had products from American Express, products from NetSpend and Western Union and several others that were actually introduced into the same prepaid display racks as Green Dot for the first time.

So that was disruptive at the -- in 2012. That was when Walmart actually introduced that Bluebird program into their stores. And I guess the difference with Walmart versus other retailers when that all happened was in the case of all the other retailers adding two, three, four other brands, the prepaid racks were generally still in the same place within the store. Sometimes they were just maybe a little bit more prominent, bigger, and more colorful.

But point being is, if you're still -- if you're going to walk into a store looking for a Green Dot card, you could still find a Green Dot card in the same place that you're used to finding it. That was different when -- with the Bluebird rollout because when Walmart introduced that product, we lost half of our shelf space in Walmart stores.

So it used to be that Green Dot prepaid cards were found in every checkout lane in every Walmart store. We actually lost half of those checkout lanes to make room for Bluebird. So that was uniquely disruptive from a shelf space perspective with the Bluebird rollout.

With the Serve rollout, as far as I'm aware, Serve is going to have a facing in the prepaid aisles. So it'll be -- so we'll share the same aisles, if you will, with Serve. I'm aware that if you look at the displays there, there are two rows. I think 14 total facings in that display. I think they're going to take one of the 14 facings, is -- I think that's how it's going look.

Ramsey El-Assal - *Jefferies & Company - Analyst*

Okay. That's helpful. Thanks. So no conference appearance for Green Dot would be complete without a perfunctory question about the Walmart renewal. I'm going to try to phrase it in a little bit of a different way to see if you can actually comment. Because understandably for all sorts of reasons, it's probably not a great idea to comment on the renegotiation process.

But speaking in kind of more general terms about other large renewals you guys have gone through. Granted, they probably are much smaller than Walmart. But still what kinds of trade-offs have you seen in the past in terms of exchanging things like margin for contract length? Or negotiating expansion of the product set? And maybe also timing.

Do the rest of your renewals tend to happen right at the end or a little early? And I mean sort of your larger customers.

Chris Mammone - *Green Dot Corporation - VP IR*

Yes. They're -- unfortunately, there are no sort of recurring themes that I could point to. Every renewal with every partner takes on sort of a different life of its own. We have different lengths, we have different terms retailer by retailer.

So really it's hard to -- I appreciate the spirit of the question but it's hard to really make any judgments in that way.

Ramsey El-Assal - *Jefferies & Company - Analyst*

Give it a shot?

Chris Mammone - *Green Dot Corporation - VP IR*

Yes. Yes. No, I mean, with Walmart all I can say, yes. It's -- we really can't comment much. We work hard for their business every day. We really value them as, obviously, a very important partner. And obviously a great venue for our products. We've been a long-term partner with them. It goes back to 2006. I think we've done three different long-term deals with them. So we'll try our best to renew it. And that's really what -- all I can say at this point.

Ramsey El-Assal - *Jefferies & Company - Analyst*

So moving away from Walmart. Seems like your initiative to play in the alternative financials services space, the check cashers is turning out really nicely.

Are there other segments or verticals where maybe in the past they didn't look so attractive because the retail channel you were in still had plenty of runway? That now you're sort of renegotiating and thinking of things like payroll or more of a direct business to get telesales or something to that effect?

Chris Mammone - *Green Dot Corporation - VP IR*

Yes. Check cashers, it's an area that -- it's a proven channel for these types of products. And it's one that we have not addressed until very recently last year. And I think part of it is we historically have issued our products through third-party banks.

And there may have been some restrictions with working with those types of providers, given rules at those third-party banks in the past. So that all changed again when we became a bank-holding company of our own in 2011. And I think we can sort of open the dialogue for the first time, if you will, with a lot of these potential partners.

And, again, we think it's a very productive -- again, it's a proven channel because NetSpend has obviously achieved a lot of successes over the years with check cashing. And it just opens you up to a significantly larger swath of the population that I think will be prone to buying our product.

Ramsey El-Assal - *Jefferies & Company - Analyst*

Some of the bigger check cashers are -- seem to be multi-year contracts with a competitor. What do you -- what does the market opportunity look like? Is it -- it's got to be relatively fragmented. But what kind of runway do you see kind of going forward in that channel?

Chris Mammone - *Green Dot Corporation - VP IR*

It's tough to say. I think if you look at the public numbers disclosed from NetSpend, I think in 2013 -- just to use round numbers -- out of roughly $400 million revenues, about half of that came from what they call their partner channel. And that would be a lot of the check cashers.

So if they've generated about $200 million from that channel, they have a pretty sizeable share. But that would suggest that -- you could just assume they have sort of a 40% to 50% market share there. It's maybe upwards of a $500 million market.

Obviously all this all educated guesses. But we think it's a sizeable market opportunity. And you mentioned they do have some exclusive relationships. Some of them extend well into the early 2020s, I think with their largest partners.

But I think that there are a lot of check cashers out there that don't -- that aren't tied to NetSpend that some -- many, many of which actually have never sold prepaid cards before. So we're finding a lot of receptivity to our sales efforts there.

Ramsey El-Assal - *Jefferies & Company - Analyst*

So looking at the numbers, so your top line full-year guide implies pretty significant revenue acceleration through the remainder of the year. Can you help us sort of work through the different drivers there?

Contribution from new business, contribution from existing business, easier comps? What are the different pieces that are going to kind of drive that pretty significant back end acceleration?

Chris Mammone - *Green Dot Corporation - VP IR*

Yes. So, one thing that we were really encouraged by in our first quarter results is that we saw a nice uptick to a lot of our key metrics that drive revenues. Notably our active card base grew I think 5.2% in the first quarter. That was up from 2.6% growth in the fourth quarter and was the third straight sequential sort of uptick to growth in that very important metric.

So we feel good about sort of where we are in the year. And sort of coming in where we did in the first quarter as -- how that sort of plays out with our plan to sort of get up into the low double digits by the end of the year to sort of hit our 10% to 12% top line objective for the full year So I think, yes, we would characterize it as right on plan thus far.

Ramsey El-Assal - *Jefferies & Company - Analyst*

On margins, again, the past quarters are very meaningful upside to our estimates. You called out some incremental expense in Q2, cautioned against just mapping that rate sort of forward across the year.

Given that these margins were I think something like 500 bps above where we modeled, can -- elaborate again on the reasoning of not flowing that through to a guidance raise for the full year. Was -- I understand there's some conservatism there but maybe you can walk us through that a little bit.

Chris Mammone - *Green Dot Corporation - VP IR*

Yes. So, yes, fair question. We did have some -- we reported an EBITDA margin of I think 23.3%. And we backed out a couple items that still suggested that we were running about a 20% margin even without some benefits.

And I think that that is a result of the Company being very focused on expense controls. And doing a good job at sort of Company-wide just really managing expenses effectively.

But we did call out that in the second quarter they're going to be about $6 million of incremental selling -- some sales and marketing expenses that hit related to mostly a lot of the new rollouts that we executed at the later -- the latter stages of 2013.

So that it's going to cause our margins to look lumpy on a quarterly basis. And that's one of the reasons that we actually only guide annually because we have that lumpiness to our business. This is the nature of being a portfolio business. So we'll continue to focus on expense management. And hopefully we'll continue to see successes there.

But, yes, it just wouldn't be consistent with our plan to extrapolate those margins to the second quarter, certainly. So, yes, you should see step down in the second quarter. But then in -- we do in general expect the maturity of a lot of the new retailers that we launched later in 2013 to start to generate more significant revenues as we move to the back half of the year. And to -- the margins to start to reflect that as the year moves forward.

Ramsey El-Assal - *Jefferies & Company - Analyst*

Maybe I'll pause here and ask if there's any questions in the audience. I have plenty more. So some of the things that weighed on your business a little bit in the first quarter were interesting.

One, and you guys were certainly not alone calling this out, was that it was a weather-related impact. Have you seen now that the -- this nasty winter's kind of receding, have you seen some normalization in the metrics? Or in the volumes? Or is --

---

Chris Mammone - *Green Dot Corporation - VP IR*

Yes, we don't give inter-quarter trends. So I think theoretically there could be some pent up demand. And maybe you could see us maybe benefitting from that. I don't think, though, you ever really get all that back.

So -- and that's one of the reasons that we don't really give inter-quarter trends because we don't want to sort of signal anything that could sort of turn one way or another. But it had an impact on the first quarter. And we sort of called out as sort of a 2% hit to the revenue growth rate.

And, yes, it just wasn't a helpful winter for us or sort of many others that you've probably heard of in this reporting season.

Ramsey El-Assal - *Jefferies & Company - Analyst*

So the interesting call out on your call was how the Target breach impacted you guys. Interesting to see all the ways that that kind of crept into your business.

I guess first just really briefly sort of summarize what those were. And then second, just indicate whether those have flowed through the business. Or is there still some residual impact that you're expecting in the second quarter?

Chris Mammone - *Green Dot Corporation - VP IR*

Yes. So, the Target data breach affected us in a couple of different ways. On one hand, in the wake of that breach we had to pull some of our products from the shelves of some of our retailers just to avoid any of our products being used by people that were able to compromise some of those cards and looking to use those stolen cards to sort of cash out, if you will.

So we took a pre-emptive move there and removed a lot of our products from the shelves. And they were really off the shelves for, I think we said 45 days. So a very significant portion of the quarter. And that had an impact. We also had increased charge-offs. Well, we had increased -- yes, we had increased charge-offs related to that breach.

Being our GPR cardholders that used our cards during the time where Target was exposed in that breach. And then our cardholders calling us up with those unauthorized charges and those disputed transactions. And us issuing provisional credits and investigating those situations. Oftentimes the customers were right that they didn't make those charges.

So that was about a $3.5 million hit to our margins in the quarter. And then we went ahead and we re-issued cards to all of our GPR cardholders that were exposed during the time of that breach, too. So that was -- so I think we were hit on all those fronts, actually.

Ramsey El-Assal - *Jefferies & Company - Analyst*

Is this the first time you've seen an impact from a large data breach? I mean, you guys are on a bigger scale now than you were prior. You're probably scooping up a little more of it for that reason.

Chris Mammone - *Green Dot Corporation - VP IR*

Yes.

Ramsey El-Assal - *Jefferies & Company - Analyst*

But is it something that's kind of an ongoing noise in the business and this was just a particularly large event? Or --

---

Chris Mammone - *Green Dot Corporation - VP IR*

We're -- we've been fully Reg E compliant for some time now. So we do have instances of our charge-offs that have run through. This was uniquely large-scale, I think, the Target breach.

And so we called it out because of the impacts -- yes, the impacts were not normal course for us, is what I would say. But I think there are smaller breaches that happen all the time that most of us never hear about. So it's one of the costs of doing business, I guess. But, yes, nothing of the scale of the Target breach.

Ramsey El-Assal - *Jefferies & Company - Analyst*

How is the regulatory environment with prepaid right now? I know what's the latest on the Consumer Financial Protection Bureau. And I think those rules are slated to come out at least informally relatively soon. And what other types of regulatory issues are you guys kind of tracking closely at this point?

Chris Mammone - *Green Dot Corporation - VP IR*

It seems like the CFPB is the one that most of the industry is focused on. And, yes, I think that we're waiting now either this month or next month. Sometime soon for them to come back with their proposed rule-making.

And so, yes, that's the one I think most people are tracking. I think that they've been pretty transparent in what they're focused on, a couple different areas. I think they're focused on disclosures. And they may have put up a mock fee disclosure box in the past just to sort of have people comment on.

You know they really want to accomplish the goal of it being very easy for consumers to look at different programs, different products and decide which one is best for them based on the different fees and the different features and terms and conditions. They want to try to make those disclosures as standardized as possible so it's easy for those consumers to make those decisions. That's area number one.

The area number two would be protections. I think that they're focused on potentially having GPR programs have the same protections that regular checking accounts have. Whether it be Reg E protections, the ability to, again, dispute unauthorized charges on your account and receive provisional credits and have your issuer investigate those unauthorized charges. FDIC insurance coverage, which I think is $250,000 on bank accounts today. So that's area number two.

And area number three, fees, they -- I think they've been really focused on one area when it comes to fees, and that's overdraft fees. It seems like they're not -- it seems like they're sort of at odds with prepaid card programs charging overdraft -- having overdraft programs and charging overdraft penalty fees for accounts that overdraft. So that being area number three.

Green Dot, we feel like we're aligned with the CFPB on all those areas. So I guess we don't feel overly exposed in any of those areas. But that seems to be, again, what they're primarily focused on with their proposed rules. We'll have to see.

Ramsey El-Assal - *Jefferies & Company - Analyst*

Maybe I'll poll the audience one last time for questions. Okay, then one last one from me. And balance sheet deployment, you guys have been pretty transparent in the past about you're not planning returning a lot of cash to shareholders anytime soon. I assume that's still probably the strategy.

Aside from funding deposits of the bank, maintaining your capital ratios, where, when and how are you going to deploy your cash? And is it --

---

Chris Mammone - *Green Dot Corporation - VP IR*

I think we've -- in the past we've stated that strategic M&A would be our first preference for how we use our cash. And then share buybacks would be sort of a distant second to that.

We got asked that question on the call last week. And I -- what we said is that we're warming to the idea of a share buyback. It's just not -- it's a more complicated process for a company like us, a bank-holding company, to be able to pull something like that off.

Most companies I think would just need board approval. If we were ever to seek something like that, and we didn't announce that we are. So we haven't really engaged in this process. But if we were to ever engage in a process like that, we'd have to obviously get Board approval and all -- and regulatory approval to do something like that.

Any major contemplated change to your capital structure as a bank-holding company regulated by the Fed would have to go through pretty rigorous approval processes by the regulators.

Ramsey El-Assal - *Jefferies & Company - Analyst*

So on the M&A front, should we look more for incremental kind of technology-related purchases to put -- to gain a new capability? Or for plug a technology gap? Or is this more sort of a rollup or expanding into a different product vertical? Or I'm --

---

Chris Mammone - *Green Dot Corporation - VP IR*

Yes.

Ramsey El-Assal - *Jefferies & Company - Analyst*

-- I think about, say, all of the -- some or all of the above?

Chris Mammone - *Green Dot Corporation - VP IR*

M&A, yes. So there've been sort of two buckets with M&A that we've looked at historically. One would be to add some technology or some component to our platform to be a more vertically integrated provider of our products.

The other would be to add a different channel of customers that we're not addressing today that could be more addressed through an acquisition as opposed to building out on our own greenfield.

So we feel pretty good, I think, in general about where we are as a platform. And that's, again, been, I think, the primary focus with past acquisitions. So if we were to do anything going forward, I think it would be more in the sort of customer channel or customer vertical side of things. So.

Ramsey El-Assal - *Jefferies & Company - Analyst*

Great. Well, I think we're about out of time. So I appreciate you being here with us. And --

---

Chris Mammone - *Green Dot Corporation - VP IR*

Great. Thanks, Ramsey.
