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GDOT - Q3 2014 Green Dot Corp Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the Green Dot Corporation third-quarter 2014 earnings conference call and webcast. All participants will be a listen-only mode.

(Operator Instructions)

Please note, this event is being recorded. I would now like to turn the conference over to Mr. Chris Mammone, Head of Investor Relations. Please go ahead.

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

Thank you, and good afternoon, everyone. On today's call, Steve Streit, our Chairman and Chief Executive Officer; and Grace Wang, our Chief Financial Officer, will discuss 2014 third quarter performance and updated thoughts regarding our 2014 outlook. Following these remarks, we will open the call for questions. For those of you that have not yet accessed the earnings press release that accompanies this call and webcast, it can be found at IR. GreenDot.com. Additional operational data have been provided in the supplemental table within our press release.

As a reminder, our comments include forward-looking statements about, among other things, our expectations regarding future results and performance. Please refer to the cautionary language in the earnings release and in Green Dot's filings with the Securities and Exchange Commission, including the Q2 Form 10-Q that we filed on August 11, 2014, for additional information concerning factors that could cause actually results to differ materially from the forward-looking statements.

During the call, we'll make reference to financial measures that do not conform to generally accepted accounting principles. This information may be calculated differently than similar non-GAAP data presented by other companies. Reconciliations of those non-GAAP financial measures to the most comparable GAAP measures are included in the supplemental tables in today's earnings release and are also available at IR. GreenDot.com. The content of the calls is property of Green Dot Corporation, and subject to copyright protection. Other than the replay noted in the press release, Green Dot does not authorized and disclaims responsibly for any recording, replay, or distribution of any transcription of this call.

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

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

Okay. Thank you, Chris, and welcome, everyone. Let's begin with a financial review of the quarter. Our non-GAAP revenue for the third quarter came in at $147 million representing a year-over-year growth rate of 6% and in line with our expectations. Adjusted EBITDA came in at $32 million, which represents year-over-year growth rate of 48%, and an adjusted EBITDA margin of 22%. Non-GAAP deluded earnings per share were $0.36, representing year-over-year growth of 50%, 5-0 percent.

These results keep us on pace to finish the year in line with our revenue guidance range of $610 million to $620 million, and because of the continued strong margin performance year-to-date, we are raising guidance again on adjusted EBITDA, with the new range of $126 million to $129 million, which includes the Q4 operating expenses we will absorb from the acquisition of Santa Barbara Tax Products Group, or TPG. We've been very pleased with the ongoing strength in the operating margins of our business, which we believe is the result of real and sustainable factors.

In general, there are three main drivers of this strong margin performance. First, active cards were up 5% year-over-year making this the fourth consecutive quarter of active card growth. We also saw double-digit growth this quarterly period and actives enrolled in direct deposit. The revenue generated from these active cards is up as well and this helps margin. Second, we continue to see historically high growth in our Green Dot branded active card count year-over-year, and this portfolio is making up an increasingly larger part of our overall active card base.

Having a higher concentration of Green Dot brand cards as a percentage of our total active card based is a benefit to overall Company margins because the Green Dot brand delivers higher margins than our non-Green Dot branded programs. Lastly, we continue to make significant strides in our efforts towards improving the operating efficiency. Smarter supply chain strategies, increased productivity from our new Shanghai technology development center, and of course issuing our own card accounts out of Green Dot Bank instead of using third-party banks are all examples of how we are achieving that operating leverage versus prior year.

Now here's a quick recap of our coming on various key initiatives across our business. Let's start with the continued expansion of our Green Dot brand prepaid products. Based on the strong sales of the initial facing of our Green Dot branded product at Walmart, Walmart has ordered additional facings of the Green Dot brand prepaid card to be placed on the rack at all of their stores nationwide. This is a good thing for our business because more Green Dot branded sales not only increases overall category sales for Green Dot as a Company within Walmart, but Green Dot brand cards carry a higher price and therefore deliver higher margins than our Walmart branded cards.

Traditionally, we're continuing to add more facings of the Green Dot branded product at many of our other legacy retailers in lieu of some of our affinity branded products. Again, this is a win for our business. The Green Dot brand has seemingly become iconic in America's low and moderate income communities, and all the competition we've endured over the past few years has apparently only made our brand stronger. Speaking of the additional facings of Green Dot brand cards at Walmart, I wanted to provide some color on the recent announcement by TSYS that the NetSpend brand card would soon be on sale at Walmart nationwide.

As you can imagine, we fielded a lot of questions on this topic, so let me help you quantify the potential impact of this event to Green Dot's future financial performance. We compete with NetSpend and have for a number of years at many retailers nationwide. I think our Green Dot products are sold side-by-side NetSpend products at some 80,000 retailers today, so we feel like we can fairly accurately size a likely range of outcomes.

Looking at how NetSpend performs at all those other 80,000 stores, we believe that at full run rate, the sale of NetSpend products that Walmart could take approximately 1% to 2% of annual category revenue, assuming their current sales rate in Walmart remains static and does not grow. This might translate into a round $3 million to $5 million in future revenue impact to Green Dot at full run rate, which is certainly well less than 1% of our total revenue base in any given year. Based on this analysis, we believe that the potential impact of Green Dot's current or future financial performance from this new offering will turn out to be quite immaterial.

Next, our new financial service center channel continues to really deliver for us. In the last quarter, we added another 400 or so check-cashing stores selling our products. Starting in October, we launched our new partnership with ACE Cash Express and their 1,500 locations nationwide. In just the past 12 months, Green Dot has gone from no distribution is this channel to now with the addition of ACE, more than 3,000 FSC locations coast-to-coast. Look, there's a myth that Green Dot's thrust into the FSC channel will be limited because this check casher or that check casher has an exclusive arrangement with this company or that company. The reality is that consumers do not have exclusive contracts with anyone.

Customers want the brand they want, at the price they want, and they won't hesitate to vote with their feet to get it. As you've heard me say before, why would anyone buy a bottle of RC Cola for a dollar when they could buy a bottle of Coke for half the price? We continue to be bullish on Green Dot's long-term prospects of the FSC channel, and we believe that over time this channel will become a meaningful part of our business mix.

Now, let me bring you up-to-date on the launch of our GoBank checking account product at Walmart stores nationwide. We publicly announced the launch of GoBank on September 24, and as you probably now know, GoBank quickly captured the interest and imagination of America's largest media outlets. Within the first week of the launch, GoBank had over a billion media impressions and some 2,000 individual feature stories published on it, including features on most of the major broadcast networks and even a feature on PBS and NPR. Furthermore, app store ratings and social media reviews have been very strong for GoBank.

Beyond the fact that our GoBank mascot, Professor Dog, is really cute, he's my dog, we believe the product is hitting a nerve for a couple of key reasons. First, our slogan is -- Say goodbye to big banks and their big bank fees. People get that. It's plain and simple. Next, the product is simply great technology. The app is colorful and fun and intuitive and intimate. GoBank's functionality makes it leader in checking account utility and convenience, and the way in which we will come Americans into our bank is fair and honest and non-judgmental.

We believe GoBank is a great product, and it brings Green Dot considerably closer to achieving our stated corporate mission of reinventing personal banking for the masses. We have hundreds of amazingly talented Green Dotters in Pasadena, Palo Alto, and around the world who brought GoBank to life, and I'm so thankful to all of you. Of course, I'm forever grateful to our partners at Walmart for giving us the opportunity. Despite its massive size and scale, the entrepreneurial spirit of Sam Walton lives and breathes in the halls of Walmart as it did 50 years-plus ago. Walmart is an entrepreneurial startup, and they still take chances and do cool things. As an entrepreneur myself, I love serving Walmart and its 140 million American consumers, and I hope Mr. Sam is proud of what we've done.

I also want to point out that while GoBank is our brand name for the checking account products sold at Walmart, we intend to use our underlying checking account platform to create other checking account offerings that we plan to sell through our other retail distribution partners and perhaps also through large scale white label partnerships. As a result, we believe that over time our GoBank brand and other brands of Green Dot bank checking account products collectively have the very real opportunity to become among the most widely held checking accounts in all of America, which is a very exciting opportunity for sure.

Next, as you likely know from press reports, last week we closed on the acquisition of TPG, making Green Dot Corporation the largest outsource processor of tax refunds for low and moderate income Americans. As we mentioned on the investor call when we announced the acquisition, this deal is expected to be highly accretive and create material growth for us next year on a consolidated basis, in addition to providing significant margin expansion and diversity of earnings. We believe the TPG acquisition is a great deal for Green Dot and its investors.

I want to publicly thank Ben Lett and our advisors at BofA Merrill Lynch, and Green Dot's head of M&A, Mark Shifke, for doing such a spectacular job of negotiating the deal, arranging the debt, and bringing it all to a close. Of course, there are also dozens of leaders throughout our Company in finance and legal who made it happen as well, and I'm deeply appreciative to all of you. I also want to thank TPG's legendary Founder and CEO, Rich Turner, and his Chief Strategy Officer, John Davis, for keeping the deal on track and showing amazing wisdom, patience, and persistent throughout the process.

Lastly, while we don't expect to provide 2015 financial guidance until our traditional time during the Q4 call in late January, I would like to finish my prepared remarks today by providing you with some insight into how we think about driving long-term growth at Green Dot, and how we've been working to set ourselves up for strong, consistent, and reliable growth over many years going forward. We've not specifically disclosed this growth strategy publicly until now because we wanted to wait until some of the larger pieces of the strategy started coming together. With some of the major recent key developments in our business now in the public domain, we feel we can now talk more openly with you about our long-term growth strategy for what we call today's Green Dot.

As some background and context, Green Dot began its life 15 years ago as an angel funded start-up that invented the reloadable prepaid debit card category. Over all those years, our business grew rapidly with essentially just one flagship product, the general purpose reloadable prepaid card, and primarily one distribution channel, which is of course retail stores. That product sold in retail stores has certainly been the gift that keeps on giving, and our legacy business, as you know, remains a large, vibrant, and growing contributor to our enterprise.

Starting a few years back, we recognize that in order to remain a viable and growing public Company, we would need to invest heavily into becoming a larger and more diversified financial services organization with multiple strategically aligned levers for growth, rather than just relying on our legacy business to sustain us into the future. As part of the strategic rebirth, there were a number of beliefs we held to be true. First, we believe that regulation would evolve and that there would someday be extreme risk in relying on third-party banks to issue our products. We become a bank holding Company and bought a bank, which for those of you who know banking, is a massive effort and a huge accomplishment.

We believe that as competition grew, our prepaid products would someday run the risk of being commoditized, so we invested in a strategic marketing campaign and trademarked redesigns of our packaging and our displays to make sure that Green Dot would always be perceived as a brand of distinction that would sustain strong customer preference, regardless of what may come in the future, as it relates to pricing and competition.

We believe that having a highly efficient operating infrastructure would be a must in order to sustain and grow margins over time. In addition to the efficiencies inherent in becoming our own bank, we recruited key leaders from the debit card processing team at JPMorgan Chase, and set sail on rebuilding our processing infrastructure, a multiyear endeavor that is now about two-thirds complete that we believe once fully deployed, will yield tremendous savings and new opportunities in the coming years. We also made similar foundational changes to our other key operating hubs like supply chain customer service and technology.

We strongly believed that mobile technology would rule the world, and that if we could become a leader in mobile technology that when bolted onto our bank and distribution model, we could have the opportunity to become America's first true enterprise scale branchless bank. We acquired the Silicon Valley mobile technology leader called Loopt, and while a controversial acquisition at the time, Green Dot today is a recognized leader in mobile banking with what many believe to be the best mobile checking account on the planet. We're the owner of a number of key mobile patents that we believe will become increasingly valuable over time. I think it's fair to say that with the successful launch of GoBank, few today would doubt the value of acquiring Loopt.

We believe that using our large annual free cash flow to invest in acquiring strategic growth would need to become a core competency of the Company to help power both our growth and diversification over the long term. We accumulated our cash, developed a robust internal corporate development function, and set about finding great companies to buy with TPG being the most recent example. Finally, we believed that in the end nothing really good or transformational happens without really great people. Over time, we recruited numerous new senior leaders for technology, product, marketing, banking compliance, operations, and more.

As we think about our sources of growth for the future, we are now in a position to benefit going forward from four distinct levers, and I'll share those with you; lever number 1 -- growth in our legacy prepaid business, more distribution, better marketing, better merchandising, better in-stock rates, and an expanding macro for prepaid cards, and so forth. Lever number 2 -- new products, GoBank at Walmart and new Green Dot banking checking account products at other retail stores beginning next year are examples. Plus, as a bank, we believe that with regulatory review and approval, there may be other compelling new products that we can offer our market segment that we believe can help solve some of our customers' key pain points while also generating material new profitable growth for us for many years to come.

Lever number 3 -- new channels, our successful entry into the FSC channel is a great example of this type of growth. [Future] opportunities to further penetrate the tax refund channel, to enter the educational disbursement channel, and to expand our online direct-to-consumer channel are also examples of potential future growth opportunities. Finally, lever number 4 -- strategic acquisitions. TPG is a big recent example, but there are many other smaller, yet material in the aggregate, highly accretive and strategic acquisitions that we can make.

Practically every independent prepaid asset is ripe for acquisition in our opinion, and smaller players in our new tax refund processing channel represent about logical opportunities. We believe that making selective acquisitions as a lever for growth is a great use of cash and an activity that can fuel long-term growth and diversity of earnings. In closing, we're really quite pleased with our progress to date in creating what we call today's Green Dot, and we feel very optimistic that our long-term strategic evolution has put us in a great spot for the future.

With that, I'll hand the call over to Grace.

Grace Wang - *Green Dot Corporation - CFO*

Thank you, Steve. I'll cover three primary topics in my prepared remarks today, the strong cash dynamics of our business, some high-level details around the funding of our recent acquisition of TPG, and raising our outlook for 2014 adjusted EBITDA and non-GAAP EPS.

First, we continue to generate solid cash flows in Q3 and maintain a very strong balance sheet. We had cash flow from operations of $22 million in the quarter, which helped us increase our total cash and investment securities to $846 million, an amount that is nearly 50% higher than this time last year. Our unencumbered cash position at the end of the quarter was approximately $211 million. We define unencumbered cash as the cash and investment securities held at the holding company, and not required to maintain regulatory capital ratios or liquidity requirements. In connection with the closing of the TPG acquisition on October 23, we used approximately $68 million of that unencumbered amount to help fund the cash portion of the acquisition purchase price and to pay other transaction fees and expenses.

Finally, the favorable mix shift to higher margin products and the realization of operating efficiencies across our business has delivered higher than anticipated margins over the course of the year. As a result, Green Dot now expects adjusted EBITDA to be between $126 million and $129 million and non-GAAP diluted EPS to be between $1.29 and $1.33 for the entire year. This revised forecast includes the absorption of approximately $6 million in operating expenses for the remainder of the year from TPG. Our new adjusted EBITDA guidance range now represents a level that for the core business is approximately 15% higher at the midpoint than our original adjusted EBITDA ranged communicated in January.

That concludes our prepared remarks, and we're now ready to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

We will pause momentarily to assemble our roster. Ramsey El-Assal, Jefferies.

Ryan Cary - *Jefferies and Company - Analyst*

Hi, guys. This is Ryan Cary calling for Ramsey.

It seems like both card revs and interchange revs beat consensus. It seems like cash transfer revenues seemed a little bit light, at least compared to our numbers. Could this be a result of winding down your MoneyPak program?

Also, it looks like growth in the cash transfer is the lowest in a couple years. I'd just love a little more color on maybe was driving this.

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

I think you said it right. There's two factors there. One is that MoneyPak is now removed in retailers, representing about 60% or 70% of all MoneyPak sales, so I think you're seeing that effect.

It doesn't mean that reloads to our cards are down, but remember MoneyPak services lot of uses and it all gets reported in that cash transfer line item on our metrics. It does load to PayPal and to other kinds of services that are not prepaid cards. I think that's part of it.

The revenue also is reflective of the fact that our preferred card at Walmart, which sells well has no reload fees. So even though reload transactions may be up, you're not going to see that reflected in that revenue item. It would be both of those events coming together for that.

Then, Ryan, what was the second question? I forget.

Ryan Cary - *Jefferies and Company - Analyst*

You touched on it there. I was just asking about the growth and the cash transfers seem to be the lowest in a couple years.

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

I think what you're going to see is over time as MoneyPak disappears and rides off into the sunset, you're going to see some of the fringe use of that line item go away. As you can see, it's not really a material driver of revenue and a less material driver of EBITDA because 100% of all the, I was trying to think of the phrase, mishegas is the phrase I'll use. All the noise surrounding the fraud and the things that have been associated with the MoneyPak are in that cash transfer segment, which is not related to reloading prepaid cards. You may see that line item move around somewhat, but as you can see, it's not particularly dramatic to the Company's overall performance.

Ryan Cary - *Jefferies and Company - Analyst*

Got it. I know you touched on it a little earlier, but yesterday on the call TSYS emphasized the exclusive nature of the relationship with ACE check cashing. In additional to reload agreement, I know you mentioned in the press release that indicated it would be rolling out some sort of product there as well. I'd love to hear a little more about the products you'd be placing at ACE, and any idea on timing and potentially what the revenue impact could be.

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

The timing would be no later than the middle of the year. What the product is, we'll save for a more fun press release when the time warrants. In terms of what, NetSpend believes they have or does not have in place is really up to them, but I can't comment on that part of it.

Ryan Cary - *Jefferies and Company - Analyst*

Great. Thanks so much.

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

Sure.

Operator

Mike Grondahl, Piper Jaffray.

Mike Grondahl - *Piper Jaffray - Analyst*

Thanks, guys. If you look at your margin in the September quarter, they're much better than what you thought at the beginning of the year. Where do you think you've outperformed the most?

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

I think we've done a good job, Mike, on expenses. Green Dot's become a big Company with a lot of different divisions and a lot of different US locations, and a new international subsidiary called [J] Green Dot, LLC, in Shanghai. We always plan for really great things, but we're always afraid to promise them because, frankly, when you're running a business of size, not everything happens the way you'd like it. We always try to leave some wiggle room.

In fact, a lot of those operating efficiencies are happening the way we hoped they would, but maybe more perfectly than we thought they would. That's one.

The other one which we frankly had not planned for and it's just been a nature of the business mix shift is that we have way more active Green Dot branded cards than we ever have in history. And those cards have lower rev shares, higher margins, higher fees. They're financially products that throw off better margins.

As that becomes a materially larger part of our overall active card mix, you're also seeing that benefit. Those are the two biggest drivers.

Mike Grondahl - *Piper Jaffray - Analyst*

Okay. Then just secondly, if you look at those retailers you signed up late last year, think of them as a cohort, how is that cohort performing against your expectations?

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

We rolled out, I forget the number, but let's call it 22,000 stores in October-ish of last year, about a year ago, and they were primarily made up of dollar stores, but we have some others. We had Home Depot in there, and some other ones. The answer was they're doing really well, but our legacy stores are also doing well.

In other words, when you look at all of our Green Dot brand retailers, yes, the Family Dollars and Dollar General and Dollar Trees have done well and certainly within our hopes and expectations. But retail is where we've been for a decade or more, like a Rite Aid or a CVS or Walgreens. They continue to do really well too and have growth over year. The Green Dot brand has just done extraordinary well this year.

Mike Grondahl - *Piper Jaffray - Analyst*

Okay. Thank you.

Operator

Tien-tsin Huang, JPMorgan.

Tien-tsin Huang - *JPMorgan - Analyst*

Good afternoon. Did you guys share the Walmart revenue performance in the quarter?

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

We did not, but I believe it was 52%. Is that right? Tien-tsin, the answer is 52% was our revenue concentration from Walmart in this quarter.

Tien-tsin Huang - *JPMorgan - Analyst*

All right, so 52%. I'm just curious, given with GoBank, and you mentioned TSYS launching at Walmart, what does that mean for the renewal on your GPR program at Walmart? It seems like, obviously, a lot has played out since the last renewal. What does this all mean?

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

I guess I can answer it in two ways. Revenue concentration and a launch of a product with NetSpend, I don't think either event has anything good or bad to do with the renewal. I don't think it's a related statistic.

In terms of the renewal itself, Tien-tsin, I can probably only give you the same color that I always do, and that is we work really hard every day to earn Walmart's trust and to earn their business. We have a tremendous number of employees who work on the Walmart account, and it's one we put a lot of effort for. We hope to earn your business every day, not just any one day or one point in time, so we certainly hope that our chances are good for winning a renewal. We never count our chickens, and we're always very respectful that that's a process that Walmart needs to work through, and we hope we'll end up with that agreement.

Tien-tsin Huang - *JPMorgan - Analyst*

Last one. I know you're not going to give us 2015 guidance, Steve and Grace, but we started out the year, and even the year before, thinking about double-digit growth. I think NetSpend's growing double-digit.

What's it going to take for Green Dot to get to double-digit on an organic basic, taking out the tax business? Thanks. That's all I have.

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

We can't guide 2015, as you mentioned, but using information we've already released in other calls and conferences that's in the public domain, you know Tien-tsin we're adding I think it was $48 millions or whatever it was, from TPG that will hit next year and revenue about $88 million. If you just add that together, you'll get some sense of growth in addition to whatever we can do organically.

If you think about the script I wrote for today's broadcast about the four levers of growth, and how those play out, not all four play out every year. But our goal is to have at least one or two levers play out in a given year, so you always have a catalyst to get us into double-digit growth. Hopefully, we'll be able to provide certainty around that goal when we give our guidance in January.

Clearly, it's our intention as a management team to always have double-digit growth, and we are putting and the pieces together to what we think can achieve that. We'll let you know more with specifics in January.

Tien-tsin Huang - *JPMorgan - Analyst*

Cool. Thank you.

Operator

Next, Matt Lipton, Autonomous Research.

Matt Lipton - *Autonomous Research - Analyst*

Thanks for taking my question. Steve, your comments on white labeling or offering more checking products (inaudible), how you're thinking about the bank's mix of assets. First, can you comment on how your experience has been with checking deposits versus the prepaid assets in terms of stickiness?

With that in mind as you add more checking, do you get more comfortable moving the bank assets from the cash that they're currently in, to higher-yielding products considering you have no loans right now? You could argue that you're the most [asset-dense] banks in the country right now. Thanks.

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

That's a lot of questions. How do I parse that out?

The first question is, are the checking account products more sticky than the prepaid products, and the answer is they seem to be. We have 15 years of data on the prepaid side of our business, and we are barely a year on the checking side of our business.

When you look at monthly deposit rates, direct deposit enrollments, use of the account, bill pays, all those kinds of things, the checking account product looks like it will have materially longer stickiness and retention and materially more lifetime revenue. I think that looks fairly obvious.

I don't have it in front of me but in our last call, I think I gave a GoBank rundown or maybe the call before, but it's out there in the public somewhere that I gave some information about average spend on the debit card and everything else, and it's multitudes of our prepaid business. We feel good that the checking account has some legs to it, number one.

The next question had to do with assets and deposits, and I think your question was, is there something we can do with all the deposits in the bank, other than invest them in FED funds or other things that earn us 25 basis points a year, I think was your question. Is that a good summary of the question?

Matt Lipton - *Autonomous Research - Analyst*

Great summary.

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

Okay. We have a lot of coal mines, if you will, within Green Dot that have not yet been mined. We have tremendous data.

We have data on 30 million Americans that we have in a big cloud-based database that we can access and get to, and parse, and look at, and that's something that isn't reliant on credit scores or anything else. These are people who we have account level history data and who are customers of our banks. We have a lot of data on a lot of people in a sector of the economy that a lot of over folks don't have, so we have that.

We have a bank that to your point has a lot of deposits and a lot of assets. We have a holding company that has a lot of cash on hand. Over time, we would love to find ways to deploy that capital, in a way that yields something greater for the bank. Any use of that would require appropriate and thoughtful review by regulators, and we're always looking to be smart about how we use that money.

More importantly, is there a way that Green Dot Bank can uniquely and specifically serve a part of our country's economy that is today not served by the other 14,000 banks and credit unions out there? We think we have a great chance to develop some programs but all in good time, and we're always very thoughtful about how we roll out new products like that.

Matt Lipton - *Autonomous Research - Analyst*

Thanks, Steve. Let me just throw one more in here.

There's been a lot of moving parts with Walmart over the last year between GoBank, the nine SKUs, NetSpend, Bluebird. If you just take a big 30,000-foot view and say how many Green Dot cards are in Walmart today on the shelves versus of the year ago, do you have more or less impression? Thanks.

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

We would have far more, especially with the new destination cube and reset and with the addition of Green Dot brand. A year ago, we weren't selling Green Dot brand. The answer is we would, starting right about now, as a destination cube begins to roll out across America, it is not fully rolled out, we would have an exponent of facings compared to what we had a year ago.

Operator

[Misu Gohl], Morgan Stanley.

Misu Gohl - *Morgan Stanley - Analyst*

Hi, thanks for taking my question. I guess, first, I just wanted to ask about the deceleration in the active card growth.

Any call out on what's driving that weakness? Maybe if you could help us parse it by channel, retailer versus the check-cashing channel maybe?

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

Do you mean quarter-to-quarter?

Misu Gohl - *Morgan Stanley - Analyst*

That's right. The year-on-year growth decelerated I think this quarter.

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

Yes. I apologize; I don't have it in front of me. I don't track it sequentially because we're a seasonal business so we do year-over-year. So much of that depends on the base, and it's a matter of comps.

While there may be some minor noise in the percentages, we look at the actual numbers of active cards. We don't see any story, good or bad, except that we're up. For a long time, we were down as we went through all the [CIP] and risks changes back in 2012 and 2013. It's been on the upswing I think for four quarters in a row, but it's just not enough people left or right to give you some meaning into that.

Sue Boyle - *Morgan Stanley - Analyst*

Okay. That's helpful.

Then just on the mix shift that you talked about and its favorable impact on the EBITDA margins, is that something you expect to continue going forward, especially as we think about the ramp of the GoBank product at Walmart?

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

I don't know. It's certainly happened now, but at the same time, we want to work hard and are working hard to grow our category at Walmart dramatically. We think GoBank has a real opportunity and early results have been good, so we hope that turns into something important.

We think our Green Dot brand at Walmart is doing very, very well. Now we'll add more units from that retailer. The Walmart money card category continues to perform well. It's still a huge selling product. Certainly, it's still the top prepaid selling part in the country.

I would say that if you were to fast forward in a year, we hope that the entire Company as a platform continues to grow. Where exactly that growth comes from, I can't say with precision, but we certainly are working hard to dramatically grow the Walmart side of the house.

Sue Boyle - *Morgan Stanley - Analyst*

Excellent. Thank you.

Operator

Ashish Sabadra, Deutsche Bank.

Ashish Sabadra - *Deutsche Bank - Analyst*

Hi, my question was regarding the cash transfer. What percentage of the cash transfers now are coming from third-party card reload? Have you seen any shift on that front? Any decline in that front?

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

I'll answer the first part of that question. It was 31% in the third quarter.

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

That was Chris Mammone. 31% of third-party reloads to portfolios other than Green Dot issued portfolios. Okay?

Ashish Sabadra - *Deutsche Bank - Analyst*

Yes. On that one, have you seen any change there in the sense any slow down or acceleration in the third-party reload, especially with the discontinuation of the MoneyPak product? Do you expect any impact to those line items?

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

No, those are all prepaid card reloads which are easily converted to swipe reloads. Remember, we've been swipe exclusively for a long time now at Walmart and many of our other bigger retailers. I think 31% is pretty up there, and that's been consistent for a while.

In the old days, it was in the teens. That would be at a good clip. No, I don't think there's any degradation there at all.

Ashish Sabadra - *Deutsche Bank - Analyst*

Okay. My second question was regarding the Walmart revenue, 52% of the quarter.

I was just wondering, it's been going down sequentially, the percentage of revenues. If you could just provide some color on what's causing that? Is that the lower pricing, or it's just that the active card growth at Walmart has been slower compared to other places?

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

Part has been the new pricing of preferred card and others that have lower fees and easier fee waivers. Some of that is being taken back with increased usage. If you look at the usage on the products, they look really good, but that's part of it.

I think that our non-Walmart portfolios, the Green Dot branded portfolio in particular, is just continuing to grow at historic highs. If I think it's a combination of what you just said, more growth on higher fee products, more growth in the Green Dot brand, so you get that lopsided revenue mix.

At the same time, we look at the Company overall. We have a lot of different portfolios, online channels, and retail channels, and different things. Going forward, we'll have the tax disbursement processing channel.

It all comes together to deliver an ultimate result. That's really what we look at as a Company. Clearly, more diversification as long as the overall Company continues to grow is a good thing for us and all of our partners.

Ashish Sabadra - *Deutsche Bank - Analyst*

Okay. Thanks for the color.

Operator

Ryan Davis, Credit Suisse.

Ryan Davis - *Credit Suisse - Analyst*

Hi, guys. My first question, could you help me understand the operating efficiencies and mix shift you saw in the quarter that led you to raise your guidance from a few weeks ago? I guess with the roll-out in ACE, and all the stores announced last fall, as well as the GoBank Walmart roll-out, I'm trying to understand where these costs that are coming out, where they're coming from.

Then my second question is, could you help me understand the different metrics or milestones we could assess the success of the GoBank and Walmart relationship? Is this move into Walmart a departure from the original demographic GoBank was targeting?

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

Okay. Let's parse it up here. All good questions, Ryan.

The answer is on operating efficiencies, certainly, a big chunk has been the bank. A year ago we were paying a lot of money to GE Consumer Retail Bank, and before that to Synovus Bank. Today, we pay that to our own bank, but it consolidates up. The bank would be a big part of that efficiency.

Technology has been another success story. We have an amazingly talented technology leadership, led by a fellow named Kuan Archer. He's been with us for a few years. Kuan has really put together just an amazing team.

We had a conversion to Agile, which for those of you who know technology, is a big deal. That took place about eight or nine months ago, and we have our rhythm with that. We just produce more code, at more efficiency, less waste of time.

I think we also do a better job as a management team of not wasting people's time. We don't embark on projects that don't have a high opportunity.

I think you're just seeing a more mature organization deliver more efficiently. We have our own bank, better technology, infrastructure, more efficient delivery of that, supply chain. Another one of our fabulous executives, Leigh Boghoussian, has done an amazing job of using modern technology and all kinds of Prism block coding techniques to merchandise stores unevenly. In other words, if we know stores are in the selling neighborhood that sells more volume, we hyperservice those stores for inventory. If we know a store's in, let's pretend, Beverly Hills, and doesn't sell a lot of cards, we underservice it.

As basic as that sounds, it's hard to do when you have 100,000 locations, and we've been making great strides there. I think you have a lot of heroes in operations to deliver that result.

The next question is, we haven't given any metrics on GoBank. Over time is as it becomes sizable enough, we'll provide usage data, sales data, active account data, and other typical metrics that you'd expect to know, but after three weeks it's just not a lot I can tell you there.

The final question of that is, does GoBank attract a different demographic in Walmart than it did when it was online? The answer is likely so. We expect to attract a lot more customers that we did online.

At the same time, it could be that those customers are not quite as affluent as what we were attracting with the online only version, but that's perfectly acceptable. We want GoBank to be America's favorite checking account, and to do that you need to be in America's largest retailer.

Ryan Davis - *Credit Suisse - Analyst*

Thanks, guys.

Operator

(Operator Instructions)

James Friedman, Susquehanna.

James Friedman - *Susquehanna Financial Group - Analyst*

Hi, Steve. Can you remind me? It's my recollection with GoBank that although you have your bank charter [and powers], you aren't able yet to offer credit related services and functions? Is that correct? At what point will you be able to deploy those?

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

That is correct, and a very good question. Banks operate, especially what are called de novo banks, which is what Green Dot Bank was largely considered, we bought a bank that existed, and still exists. If you were in the community of Provo, Utah, and you were near the Brigham Young Athletic Center, you look across the street and see a bank called Bonneville Bank with drive-through tellers and lollipops for the kids, and Christmas club accounts, and loans for the community. Bonneville Bank is Green Dot Bank, and it's still there after 42 years.

The way we've taken that charter and expanded it to do the things we're doing is somewhat new. You initially go under a three-year business plan, which for us is coming up to maturity. That was in November-ish of 2011, so we're coming up on that three-year anniversary shortly.

Then you present what your view is for how you want to use your institution for another four-year business plan chunk. In that discussion you would have thoughtful communications with stakeholders, regulators, others. You would put together a business plan that you think makes sense for the kind of bank you are. Clearly, Green Dot would do that, and we would make that presentation.

This is not just for us but any bank. This is how banks work. If we wanted to do something with our charter that was unique or new that we're not doing today, like credit to your question, you would build that into your business plan.

And you would seek permission and we would expect our regulators to have thoughtful and intelligent questions about it, and to review it appropriately. We'd see how it goes. That's how that process would work.

James Friedman - *Susquehanna Financial Group - Analyst*

Okay. With regard to your answer to the prior question about processing. I realize you're off the Synovus platform now that you got Bonneville.

Are you still processing with any outside processor? My recollection is you used to process with TSYS at one point. Has that been taken in-house as well?

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

No, we still use TSYS as our processor and have for 15 years. They've been a very good partner and good people, and we continue to process with them.

Over time, we'll look to find out more efficient ways to build operating efficiency within our Company, and we've talked about that openly on these calls. TSYS and Green Dot have talked about that openly, but we still remain a client of theirs, and certainly will for the next months for sure, months with an s.

James Friedman - *Susquehanna Financial Group - Analyst*

Got it. I appreciate the update. Thank you.

Operator

(Operator Instructions)

Jordan Hymowitz, Philadelphia Financial.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Hi, guys. Steve, good job on using the word mishegas on a conference call. I always thought you had a lot of sechel. I'll give one back at you.

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

Thank you, Jordan.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

My question is, you have 51%, 52% of your revenues from Walmart, but Walmart is a lot less profitable, and not all the Walmart relationship is up for bid. My first question is, what percent of the Walmart revenue would you say will be up for bid at this point?

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

I don't know. I know the answer, but I don't know, is that a metric we disclose? I just don't know.

Jordan, the answer is, it's less than the whole because the whole includes Walmart money card, Walmart gift card, reload network, and three or four other contracts. We've not disclosed, I don't think, what piece specifically Walmart money card is. It's the majority of that revenue, but to your point, it's not all of it.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

From what analysts have said, it's somewhere between 50% and 75%. That's a wide range, but is that a reasonably wide range? Would it be at least 25% non-MoneyPak?

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

What can I say beyond what I've said? I don't want to disclose the number, not because it's a secret, it's just that we haven't. I don't want to add new metrics to our public reporting.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Okay. The other side of it is the part that is potentially for bid would be the least profitable of all your businesses, correct?

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

I appreciate the line of questioning, but my feeling is on the discussions of the Walmart renewal, is that I'm so deeply respectful of the process. It's a very formal process, and I value our relationship with Walmart that I just don't feel comfortable really talking about any of it, except to say that we hope to renew all of it. It's all important to us, whether it's a penny of margin or a zillion dollars of margin, we love every bit of it, and we'll work hard to renew all of it.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Let me try the other extreme then. Would you say that the payday business that you're putting on would be among your highest margin products?

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

Payday? I don't understand. You mean like in the check-cashing world?

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Check-cashing stores, yes.

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

That margin would be no better than what we have a Rite Aid or a Walgreens or something like that. The Green Dot branded business in general is our highest margin business, that's true, but not just at FSC stores. It could be at Rite Aid, too.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Got it. Thank you.

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

Yes, okay. Anyone else?

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

Yes, we've got two more.

Operator

Yes. Michael Tarkan, Compass Point.

Michael Tarkan - *Compass Point Research - Analyst*

Thanks, guys. You have $211 million in unencumbered cash, and you're growing cash quarter-over-quarter. I'm just wondering how you think about the buyback or uses of cash at this point.

I know you touched on acquisition, but just curious how your thinking about a buyback? Thanks.

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

We always think about it, meaning that when we have our capital allocation discussions, and as we think about long-term use of capital, it's always on the list. We never forget it. It's never orphaned. It's always there, and we discussed it.

When you think about the accretion that we believe will be delivered through TPG, the diversity of the growth, when I look at what our M&A division brings to us to review, we think there's a lot of great uses of our cash. And buybacks may be one of them, but not tomorrow.

Michael Tarkan - *Compass Point Research - Analyst*

Okay. Now that TPG is in-house, is it still true that no one partner of yours will comprise 25% or more than 25% of your EBITDA?

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

Yes, that is correct. That's right.

Michael Tarkan - *Compass Point Research - Analyst*

Thank you.

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

You bet. We have we have time, we only have one more person in queue, and we'll take that question, operator, and we'll have an early call. This is a first.

Operator

Jeff Osher, Harvest Capital.

Jeff Osher - *Harvest Capital - Analyst*

Hi, guys. Two quick questions, Grace, if we think about beyond the unencumbered cash per your definition, how much cash, excess cash, is at the bank above and beyond regulatory requirements?

Grace Wang - *Green Dot Corporation - CFO*

Roughly about $125 million, down at the bank. The rest is (inaudible).

Jeff Osher - *Harvest Capital - Analyst*

Great. As we think about a rough proxy for net cash per share prior to the TPG cap structure changes, it would be intellectually honest for us to add that $125 million or so to your unencumbered cash?

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

Kind of, sort of. The way it works is that we always plan for growth. We look at capital allocation for the holding company, which is a separate conversation and capital allocation for our bank, and we look at --

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Jeff Osher - *Harvest Capital - Analyst*

Steve, I'm not talking about -- I'm trying to get a sense -- in other words, from an enterprise value perspective regardless of what you intend to do with the cash.

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

Yes, it's all our cash. That's a very fair (multiple speakers).

Jeff Osher - *Harvest Capital - Analyst*

That's what I'm driving at. Okay. Roughly a third of the cap is in cash, effectively net cash.

Now, to Jordan's question, just dovetailing off that, to your guys credit, you're incredibly deferential and respectful of any metrics around Walmart. Coming at Jordan's question, perhaps a bit differently, next year you guys have disclosed what TPG will produce. Based on the disclosures on this call, your non-Walmart business is now on approximately a $280 million run rate, with margins we can back into in the 30% range plus, growing this quarter I think based on the metrics you provided, roughly 37% year-over-year growth, the non-Walmart business.

To Jordan's point, and you probably won't comment specifically, but if roughly 25% of your Walmart business is not up for renewal, that implies that if the Walmart business that is up for renewal, the money card were to go away, I just want to make sure I'm thinking about this right. You'd be on today's run right roughly a $450 million run rate, with something like $140 million of EBITDA under that scenario. Taking those three (inaudible)

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

I don't know how I could answer that. The answer is, I don't know what to say.

I think the answer is that we worked hard to make sure that Green Dot is a sustainable and survivable Company in any range of outcomes. Without endorsing your analysis, because I haven't had time to review it, we believe we'd be a healthy and sustainable Company in any range of outcomes.

At the same time, in no way, shape, or form do we in any way want to get into a conversation about all that because we believe very strongly that we're great partners of Walmart, and have good feelings for the future. But I understand where you're coming from.

Jeff Osher - *Harvest Capital - Analyst*

Great. Thank you guys for taking my questions, and nice work.

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

You bet. Thank you.

Operator

Doug Greiner, JMP Securities.

Doug Greiner - *JMP Securities - Analyst*

Just one more here. Can you go back to the methodology for the potential net spend impact in Walmart? How much conviction do you have that the impact there might only be $5 million? Thanks.

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

You never know. What we're able to do is because we've been competing with NetSpend on the rack at so many other retailers that it's not a new phenomenon. And our suspicion is that people who shop at Walmart are similar to the people who shop at other stores where we compete.

NetSpend, as you know from their own disclosures, has not performed particularly well at retail. I think it's barely 10% of their revenues after two years or three years of being in a whole lot of retail stores. That gives you some sense of the relative size of the organizations in retail.

All we did was look at how they sell at other retail stores, and apply that overlay to how they might sell at Walmart to come up with a range of outcomes. That's not to say they may not sell better.

It's not to say that they may not clobber us there or something like that. We take all competition very seriously. We never take it for granted. We always have humility, and we're a humble Company in that way.

When we think about internally how do you size that threat, or how do you size that impact? We think it's realistic to look at what happened at this retailer, that retailer, the other one, the other 70,000 and put that all together and say, if that same sales volume and impact were to happen here, what would happen? To your point, we could be high or low or anywhere in between. It's certainly possible.

Doug Greiner - *JMP Securities - Analyst*

Then one follow up would just be, is it true that the space for the new NetSpend product in Walmart, that's not coming out of Green Dot's area in the store, maybe American Express, or can you comment? Thanks.

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

I don't want to comment what got replaced. That's a better question for Walmart or the company whose product was replaced, I guess. I'm pleased and thankful to say that the Green Dot SKUs were not affected nor were the Walmart money card SKUs affected, and in fact, our SKU count will be up and not down.

Doug Greiner - *JMP Securities - Analyst*

That's it. Thanks.

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

Okay. Guys, I think that does it. We appreciate all the questions today, and thank you for listening in.

I know that Money 2020 we have a bunch of investor interaction happening, and maybe some conferences after that in New York and elsewhere, so hopefully, we'll see you out on the circuit. Thank you for tuning in today.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.
