

Cachet Financial Solutions, Inc.
Third Quarter 2014 Earnings Call
November 13, 2014

Operator: Good afternoon. Welcome to Cachet Financial Solutions Third Quarter 2014 Conference Call. My name is Mannie and I will be your Operator this afternoon. Earlier today the Company issued its third quarter of 2014 results in a press release, a copy of which is available on the Investor section of the Company's website at www.cachetfinancial.com.

Joining us for today's presentation is Cachet's President and CEO, Mr. Jeffrey Mack, Executive Vice President and CFO, Mr. Darin McAreavey, and the Company's Executive Vice President of Sales, Mr. Larry Blaney. Following their remarks we will open up the call for your questions. Then before we conclude today's call I'll provide the necessary cautions regarding the forward-looking statements made by Management during this call. I would like to remind everyone that this call will be recorded and made available for replay via a link available in the Investor Relations section of the Company's website.

Now, I would like to turn the call over to Cachet's President and CEO, Mr. Jeffrey Mack. Sir, you may proceed.

Jeffrey Mack: Thank you, Operator and welcome everyone. Thank you for joining us on today's call. About 30 minutes ago we issued our third quarter 2014 results in a press release. A copy of the release is available on the Investor Relations section of our website. If you haven't done so already, I encourage you to download the slide presentation also on our website which provides further analysis of our quarterly operational and financial results. Darin and I will be referring to this presentation during the call.

Q3 marked our sixth consecutive quarter of double digit revenue growth. This was driven by a 56% sequential increase in transactions on our award winning platform. The strong increase in transactions, illustrated on Slide 3, also speaks to our growing highly valuable recurring revenue stream. Our third quarter performance also reflects our focus on upselling and cross-selling our existing customers as well as diversifying a revenue base including securing three new major customers. But before I go further I'd like to turn the call over to our CFO, Darin McAreavey, who will take us through the financial details for the quarter. Afterward I will return to the call about our operational highlights and business outlook. Darin?

Darin McAreavey: Thank you Jeff and welcome everyone. Now to our results for the third quarter ended September 30, 2014. As you can see on Slide 5, revenue increased 182% to 856,000 from the same year ago quarter. The improvement was driven by an increase in transactions processed on our

platform which were up 56% from the prior quarter and 289% from last year to a record 1.2 million transactions. The increase in transactions was due to an overall increase in the number of active banks and credit union customers that have implemented our RDC software along with our newest product offering, CheckRisk Pro. The increase in our Q3 revenue was also driven by the software development fees associated with implementing our Mobile Money offering to US bank and (inaudible) Federal Credit Union.

Turning to Slide 6, recurring revenue from our RDC products, which includes transactional and ongoing monthly maintenance and hosting fees was approximately 486,000 in the third quarter of 2014. This was up 154% from the same year ago period. While our recurring revenue figures are currently modest since our Company is in the early stages of recurring revenue generation we expect recurring revenue to be a significant part of our revenue model going forward as we continue to activate existing customers under contract. We also expect recurring revenue to grow as we secure new sales for our products including RDC, CheckRisk Pro and Select Mobile Money. Our recurring revenue includes monthly service charges to customers for our SaaS offerings as well as transactional fees for the number of items processed. We believe this model will have a positive impact on our cash flow and ultimately our Company valuation. Therefore we believe transactional volume is a key metric for our ability to scale and generate sufficient revenues to eventually achieve consistent profitability.

In addition to recurring revenue we also generate revenue from the upfront payments associated with the initial implementation of our solutions. As a SaaS-based solutions provider we are required to amortize these fees into revenue on a straight-line basis over the life of the contract, which is typically three years. At quarter end we had deferred revenue balance of 1.1 million, which was up 18% from the prior quarter. As many of you know we acquired Select Mobile Money from DeviceFidelity in March of this year. Select Mobile Money is a mobile banking platform dedicated to the prepaid cardholder. The revenue generated from this offering includes upfront implementation fees and other integration development fees which range from the low to mid six figures. Additionally we generate revenue based on the number of active users on the platform as well as fees earned through the reloading of the prepaid cards, ATM withdrawals, interchange fees and from the transfer of money through our partnership with MoneyGram.

During the third quarter we received orders for Select Mobile Money with minimum contract values totaling approximately \$900,000. We believe the total value of these contracts once fully implemented and assuming a certain level of adoption will generate more than 4.8 million over the next three years. Jeff will discuss this in more detail later in the call.

Now turning to our expenses for the quarter on Slide 7. Cost of revenue was \$830,000 or 97% of total revenue. This compares to \$617,000 or 203% of total revenue in the year ago quarter. The increase in cost of revenues on a dollar basis was primarily due to higher amortization expense associated with the intangible assets acquired as part of the Select Mobile Money acquisition. As our overall revenue continues to grow we expect our cost of revenue to remain relatively fixed on a dollar basis. We have made a significant investment into fixed costs that support our current and expected future operations and as revenues increase we expect gross margins to improve.

G&A expenses for the third quarter were down \$112,000 or 12% to 843,000. This was primarily due to lower levels of professional fees incurred associated with accounting related services. Total operating expenses in the third quarter increased 44% to 2.4 million from the same year ago quarter. The vast majority of this increase was due to higher R&D costs from the DeviceFidelity acquisition. We also had higher sales and marketing expenses related to our efforts to expand our customer footprint, and market share. We continue to anticipate (inaudible) in these two categories will be higher than 2013 levels.

Our net loss for the third quarter of 2014 totaled 5.2 million or \$0.33 per basic and diluted share. This compares to a net loss of 2.3 million or \$0.56 per basic and diluted share in the year ago period. Our Adjusted EBITDA loss, a non-GAAP metric for Q3, 2014 totaled \$2 million compared to 1.8 million in the year ago period.

Now turning to our balance sheet, at September 30, 2014 we had \$652,000 of cash on our balance sheet. Subsequent to the quarter end we issued 826,000 shares of convertible preferred stock resulting in gross proceeds for the Company of 1.2 million. In addition the Company's overall debt level including accrued interest decreased from 14.8 million at the end of June, to 4.7 million at September 30, 2014. Of this amount 3.4 million has the option to convert into common stock. As we move forward we will continue to assess our working capital needs to ensure we're able to execute on our strategic growth plan. This completes my financial summary. I will now turn the call back over to Jeff. Jeff?

Jeffrey Mack: Thanks Darin. Turning to Slide 9, we continue to witness the financial services industry's transition to mobile-centric products and solutions. According to Forester Research, no mobile feature has made as big an impact as quickly as Mobile Remote Deposit Capture, with virtually every bank in the country either currently considering or building mobile RDC functionality. Cachet is at the forefront of this revolution, with the most secure and robust technology offering in the market. We continue to execute on this massive opportunity demonstrated by our growing customer footprint, which now totals nearly 15% of the 2,000 banks that offer mobile check deposit.

Consumers are rapidly increasing their use and reliance on mobile check deposit services. This is revealed by the 250% increase in the total volume of mobile checks deposited this year. In fact consumers have deposited more than \$150 billion using Mobile check Deposit. This huge amount has come from only an estimated 11% of consumers that have used this service. Cachet has been able to successfully compete and take market share from larger, more established competitors. We have accomplished by executing on three key initiatives. First, by effectively developing a premier technology suite focused on large and growing markets. Second, through market focused development of products designed to attract high potential key market segments like RDC, risk assurance and Mobile Money Management, and finally by providing industry leading consultative client service support to ensure our clients' ongoing success. These key initiatives position us to further capitalize on this massive opportunity.

We've developed industry leading technologies that fall into three main product categories; Remote Deposit Capture, Risk Assurance and Mobile Money Management which are highlighted on Slide 10. We continue to make solid progress across all of our business segments during the third quarter. This was highlighted by the several new customer wins and significant growth in key performance metrics during the quarter.

First, in our core RDC product offering; as illustrated in the diagram on Slide 11, our RDC products align bank and credit union customers' to remotely scan checks through their smartphones, tablets or other stationary computing devices. The scans are then securely transmitted to their financial institution for immediate depositing, posting and clearing. We provide this solution as a cloud-based Software-as-a-Service offering to financial institutions who then offer it to their merchant and personal banking customers. As many of you know SaaS offerings are cost effective approach for banks and credit unions to offer the same functionality as those provided by larger banks without upfront capital expenditures related to hardware, software licenses and customer support.

RDC represents a majority industry shift in consumer behavior as more consumers and businesses realize the convenience of this technology. This is reflected in the significant growth of our transactions across our platform. Not only are we seeing increased usage of our RDC technology by current customers we are seeing growing demand for our industry-leading RDC products as we continue to sign a new bank or credit union literally every other business day. It's important to note that we have sold multiple products to approximately 5% of our existing customer base. This represents a tremendous opportunity for us to further penetrate our customers with our suite of product offerings.

During Q3, our Select Business solution was chosen by a leading regional bank with more than \$2 billion in assets and 35 branches across the Southwest US. Following their competitive RFP process the bank selected us because our product offerings best fit the mobile banking needs and diverse technical requirements of its customers. We expect to complete the migration of the bank's 400 merchant customers on this platform during the fourth quarter of this year. As we demonstrated with this new customer Select Business works seamlessly across multiple operating platforms and can be deployed quickly and cost effectively. We also made other key enhancements, including improved speed, enhanced graphical user interface and more comprehensive and detailed reporting capabilities. Businesses can now electronically deposit checks using smartphones, tablets or desktop scanners, allowing them to better manage their operations on the road.

Users can also access all of the same functionality of an advanced merchant RDC system remotely via their tablets or smartphones including capturing multiple checks in a single mobile deposit. We are confident that Select Business will improve the bank customers' satisfaction and loyalty and ultimately expand its customer base. For forward thinking financial institutions like the Regional Bank we can provide turnkey mobile solutions that are reliable, secure and highly scalable. The depth and functionality of our offerings allow us to grow along with the customer as they expand their offerings to include prepaid debit cards, remittance processing and other products. In fact with the announcement of the launch of our new and enhanced Select Business RDC platform we anticipate a cost savings in excess of \$1 million based on the number of merchants we anticipate our banking customers will be adding over the next two years.

Also during the quarter we received a notice of allowance for a patent application that covers aspects of our RDC platform that will allow users of Apple OS and iOS operating systems to deposit bank checks using their Apple desktop, laptop or mobile device. There remains a large segment of the RDC marketplace that use Apple products which continue to be underserved. Financial institutions that only offer PC-based RDC solutions are missing out on the opportunity to better serve customers and in turn maybe losing business to the banks that do. Cachet has long been recognized for making innovative RDC solutions available to financial institutions and their banking customers. In 2010 we were the first to market with an RDC solution for Apple users. This notice of allowance reaffirms our position as an Industry leader that supports a unique value proposition for potential customers.

Turning to our second product category of Risk Assurance. During the third quarter we implemented our first customer, The Bancorp, one of the largest issuing banks in the US on to the CheckRisk Pro platform. This new offering enables financial institutions like The Bancorp to collect and process remote deposit information from multiple sources, including

ATMs, branches and mobile regardless of vendor. It also gives financial institutions the ability to tailor their risk mitigation process to their specific requirements by quickly identifying when an item is being deposited multiple times. We first led the RDC industry with Check Review, our patent-pending tool for monitoring check images in real time but recognize mitigating risk is the number one concern for financial institutions looking to implement RDC programs. CheckRisk Pro helps our clients mitigate risk with a customizable platform for monitoring, decision making and measuring deposits from a variety of sources. CheckRisk Pro allows The Bancorp and other financial institutions to track operational metrics and create customizable reports for measuring the performance of their RDC programs.

These unique features provide us with a competitive advantage in the marketplace. Based on the positive feedback and responses we're receiving from new prospective customers testing our product we are confident that we will convert a high percentage of the 18 proposals that we have outstanding in the coming quarters.

Turning to Slide 12, our Mobile Money Management product offering allows users to manage a prepaid card via our cloud-based applications. For those of you using a mobile app like banking platform from your financial institution, Select Mobile Money provides the same capabilities for the prepaid cardholder. Our platform allows users to manage their accounts, load prepaid cards with additional funds, transfer money between accounts and send money to anyone anywhere via remittance. It also allows users to setup GoPay, access customer services and support and earn cash back from local-based offers issued by local merchants.

As you can see on Slide 13, we secured two major wins for our Select Mobile Money platform in the third quarter. As I mentioned in our last call we partnered with a top five commercial bank in the US during Q3 to implement a prepaid mobile platform for Kroger, one of the world's largest supermarket chains. The major win reiterates the strong value proposition of our platform and particularly its unique capabilities that enhance the experience of the banking consumer. We expect to launch this program during the fourth quarter.

Also during Q3 we received a mid-six figure purchase order from Navy Federal Credit Union, the largest credit union in the US with more than six million members. With the tremendous success of the first prepaid card program we rolled in May of this year Navy Federal decided to offer a general purpose reloadable card to all its members through our mobile money platform. The solution provides Navy Federal's customers with secure mobile access to account balance and transactional details, secure fund transfer and easy card reloading.

Depicted on Slide 14 the platform's powerful back-end analytics and measuring capabilities allow Navy Federal to segment cardholder behavior and send relevant marketing messages to engage its member base. We anticipate this program will launch during Q4. We continue to explore additional technology solutions to offer Navy Federal's members. These significant orders demonstrate that our Money Management Solutions are becoming an essential part of the mobile banking experience. Select Mobile Money helps increase breaking customer engagement, which leads to growth in banking related recurring revenue as well as provides unique competitive advantages for winning new banking customers.

As you can see on Slide 15 our overall transactional volume increased 56% sequentially 289% from last year to a record 1.2 million transactions. In fact at Slide 16 you can see that at the end of the third quarter our total products sold increased 11% from the prior quarter and 52% from last year totaling 318 products. Of the 318 products sold we have 208 or 65% fully implemented on our platform. This was up 14% from the prior quarter and 104% from last year.

As you can see on Slide 17 we built on this operational momentum in Q3 by forming a strategic partnership with Contact Solutions to operate it's My:Time mobile customer care product to Cachet's client base. With My:Time, our banking clients can now offer their customers a complete customer service experience that enhances engagement within their mobile money app. My:Time is the first mobile solution that delivers on demand customer care, supporting user's Mobile Flexible Lifestyle without interrupting the mobile experience.

Financial institutions that offer our branded prepaid Mobile Money Management app already give their customers improved flexibility in managing their finances. With My:Time they can now provide the convenience of initiating self-service or agent customer service from a help button within the app. This eliminates the need for users to leave the app to place a customer service call. We are committed to delivering innovation and value to our client, cardholders by offering a secure, user friendly and engaging mobile experience. My:Time provides exceptional on demand customer care functionality. It demonstrates this commitment by providing the most comprehensive mobile customer service experience in the industry.

Another important partnership from the third quarter was with Ingo Money, a provider of recurring instantaneous guaranteed fund technologies. We integrated Ingo Money's check guarantee services into our Select Mobile and Select Mobile Prepaid mobile banking platforms. The integration enables Cachet's clients to acquire and retain more customers and members by offering the deposit flexibility, increasingly important to consumers. Quick access to money is critical to millions of consumers and small business

operators who desire a variety of options to help manage their day-to-day financial obligation and cash flow. This important partnership makes it easier for Cachet's financial institution customers to implement and deliver new high value services in order to meet customers' increasing mobile banking needs.

Select Mobile Money's expanded capabilities have recently led to new customer wins. League Service Corporation chose Select Mobile Money platform to power its credit union money prepaid mobile application. Today more than 900 credit unions currently offer LSC's CU Money product to their members. The platform will support LSC's general purpose reloadable and travel card programs. Select Mobile Money is transforming the prepaid experience, creating stickier customer relationships and extending the life of the prepaid card. The win presents a tremendous opportunity for Cachet and yet another strong validation of our Mobile Money Management platform. Our high value, low cost solutions allow credit unions like LSC to build customer relationships and drive sales by providing a compelling solution for existing prepaid card platforms.

We are seeing increased interest from financial institutions for Select Mobile Money. In fact during Q3 we increased the number of new contracts signed to a record 318. We estimate that the value of these contracts assuming a certain maturity level to be worth on average approximately 135,000 over a three year period. Historically we would sign an average of 30 contracts per quarter, representing approximately \$4 million in total contract value. However during Q3 we estimate that the total value of contracts signed was approximately 9.9 million of which 4.8 million or 48% were related to four new Select Mobile Money contracts.

Going forward we believe Select Mobile Money and CheckRisk Pro contracts, we will generate approximately 10 to 15 times more than a single contract for a traditional RDC offering. We believe the new Select Mobile Money programs launching in Q4, coupled with the 200 plus banks and credit unions we're currently serving will help drive strong growth starting in Q4. It's important to note that from a revenue recognition perspective we are required to defer implementation fees over the life of the contracts, which is standard for SaaS-based companies. Additionally the onboarding phase typically takes approximately 120 days from signing up of banks and credit unions to when we start seeing the transactional revenues.

While new customers and our consistent revenue growth demonstrate our ongoing success we realize they do not fully reflect the shareholder buy (ph) we've been building. So starting this quarter we have begun to report the dollar value of the contracts we have signed with our bank and credit union customers over the last two years. As we highlighted on Slide 18 our cumulative contract value increased 26% from the prior quarter and 79% over the last year to a record 50.9 million with nearly all of this amount

representing recurring revenue. Cumulative contract value represents the estimated aggregate total revenue potential of product and service contracts signed over the trailing 24 month period. It is also important to note that our initial contractual agreements often involve only a portion of our product and service portfolio. So we have the inherent potential for contract expansion to include other offerings and associated transaction growth. Further our contracts and customers relationships have also been very sticky. In fact we've experienced virtually no customer attrition since we first began to roll out our product offerings around the end of 2011.

Looking ahead into 2015 we will continue to build on our momentum. We remain ideally positioned with industry-leading solutions and a growing customer base to capitalize on the growing industry demand for mobile banking technologies. We believe our operational strength and the acceleration of the number of go-lives we're able to complete each quarter, will continue expand our market share and drive strong revenue growth in the quarter's ahead.

Now with that we're ready to open the call for your questions. Operator please provide the appropriate instructions.

Operator: Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question please press star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may also press star, two if you would like to remove your question from the queue. For participants using speaker equipment it may be necessary to pick up your handset before pressing the star keys. One moment while we poll for questions. Thank you.

The first question is from Jason Davis of Davis and Associates. Please go ahead.

Jason Davis: Jeff, Darin, can you explain how we should look at contract values, if that's going to be a metric that you use?

Jeffrey Mack: Hi, Jason thank you for the question. It's a good question. It's something new and it's the product (ph) I have been asked at a number of occasions from our investors as to how do we assess the real value of the contracts you are signing today versus what you were signing in the early stages of your Company when we really only had one or two products primarily in our core products. So with the advent of the nine products that we've got today and a number of those products coming in, in particular over the last two quarters we elected to try and assign some type of guidance to those so that you could see the impact of not only the acquisition that we made but some of the other product that we've got. So it is going to be a key metric and from our perspective it's going to be something we're going to be highlighting and it's something that

we would hope our investors would start to look to as we do as well from an internal perspective and really understanding, I think some of the newer products that we've brought into the market in the last two quarters.

Jason Davis: Okay. Do you have time for couple more Jeff?

Jeffrey Mack: Sure.

Jason Davis: Okay, when do you expect to go live with US Bank, Kroger and Navy Federal programs?

Jeffrey Mack: Larry, do you want to answer that?

Larry Blaney: Yes, so we expect to go live with both of those programs by Thanksgiving. We're very excited.

Jason Davis: Okay, great. Any other opportunities moving forward with US Bank or Navy Federal?

Larry Blaney: Yes, so with US bank we are working on two other very large opportunities and Navy Federal has told us that they're going to want to add a lot of features to the platform in 2015.

Jason Davis: Okay. Great, thanks guys.

Jeffrey Mack: Thank you, Jason.

Larry Blaney: Thanks.

Operator: Thank you. As a reminder, ladies and gentlemen, please press star, one if you would like to ask a question. Thank you.

The next question is from Mark Welshinger of Davis and Associates. Please go ahead.

Mark Welshinger: Hey guys just wondering, does the contract value analysis provide any insight as to the predictability of your future revenues?

Darin McAreavey: Hey, Mark. This is Darin, the CFO. Yes, we believe that the contract does provide an indication. We went back and looked at, we've got some history now specifically around our RDC offering that we can look to adoption levels, the maturity, what we've coined kind of a seasoned account and we can come up with the value based on the transactions generated from each account. So kind of looking forward -- now keep in mind this is a three year contract that we signed. As Jeff indicated in his prepared remarks that we literally have no attrition, so really do believe, kind of looking forward, as we've

had these accounts live for a year, year and a half that we can get to a level of predictability in our revenue stream as we look out.

Mark Welshinger: Sure, sure. One other question for you. Beyond your contracts what does the current pipeline look like for you?

Darin McAreavey: Larry, do you want to take that?

Larry Blaney: Yes, so right now we measure everything. We have a CRM and we weigh everything as far as opportunities. Right now we have 305 opportunities with banks, 255 opportunities with credit unions, 67 opportunities with alternative financial service providers and then 44 partner opportunities, resellers and partners that we work with. So we have about a total of 671 opportunities in the funnel right now.

Mark Welshinger: Great, great. Sounds good. Thank you.

Jeffrey Mack: Thanks.

Darin McAreavey: Thanks, Mark.

Operator: Thank you, and another reminder if you want to please press star, one if you would like to ask a question. It appears we have no further questions at this time. I would like to turn the floor back over to Management for any closing remarks.

Jeffrey Mack: Thanks everyone for joining us on our call today. I especially want to thank our investors for their support as we build Cachet into the global leader in cloud-based SaaS Mobile Money Management technology. I appreciate your support. Thank you very much.

Operator: Before we conclude today's call I would like to provide Cachet Financial Solutions Safe Harbor statement that includes important cautions regarding forward-looking statements made during this call.

During today's call there were forward-looking statements made regarding future events, including Cachet's future plans, objectives, expectations, performance, events and the like are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Securities Exchange Act of 1934. All statements other than present and historical facts, which include any statements regarding the Company's plans for future operations, anticipated future financial position, anticipated results of operations, business strategy, competitive position, opportunities for growth and industry trends are considered forward-looking statements. Such statements include but are not limited to the Company's expectation for revenue growth and profitability. All such forward-looking statements involve risks, uncertainties and

contingencies many of which are beyond the Company's control. The Company's actual results, performance or achievements may differ materially from those projected or assumed in any of the forward-looking statements.

Factors that could cause actual results to differ materially from the forward-looking statements, include among others, factors mentioned in the Company's earnings release and periodic filings with the SEC, overall economic and business conditions, the demand for our products and services, competitive factors, the emergence of new technologies and the Company's cash position. The Company does not intend and undertakes no duty to update any forward-looking statements to reflect future events or circumstances.

In addition, in evaluating the Company's financial performance and operating trends, Management considers information concerning the Company's net sales, adjusted gross margins, adjusted operating expenses and Adjusted EBITDA among other items, which are not calculated in accordance with generally accepted accounting principles in the United States of America. The Company's management believes these non-GAAP measures are useful to investors because they provide supplemental information that facilitates comparisons to prior periods and for the evaluation of financial results. Management uses these non-GAAP measures to evaluate its financial results, develop budgets and to manage expenditures. The method (ph) the Company uses to produce non-GAAP results is not computed according to GAAP, it's likely to differ from the methods used by other companies and should not be regarded as a replacement for corresponding GAAP measures. Investors are encouraged to review the correct reconciliation of these non-GAAP financial measures to the comparable GAAP results which is part of our earnings release and can also be found in the Company's website at www.cachetfinancial.com.

Finally I would like to remind everyone that a recording of today's call will be available for replay via a link available in the Investor section of the Company's website. Thank you for joining us today for our presentation. You may now disconnect.