Cachet Financial Solutions, Inc.
Second Quarter 2014 Earnings Call
August 12, 2014

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

Joining us for today's presentation is the President and CEO of Cachet Financial Solutions, Jeffrey Mack; and Executive Vice President and Chief Financial Officer, Darin McAreavey. 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 the 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 at www.cachetfinancial.com.

Now, I would like to turn the call over to Cachet Financial Solutions' President and CEO, Jeffrey Mack. Thank you, sir. Please go ahead.

Jeffrey C. Mack: Thank you and welcome everyone. Thank you for joining us on today's call. Today marks our first quarterly results call as a public Company, having completed an initial public offering on July 14th. We are encouraged by our results in the second quarter of 2014, which were highlighted by a 120% gain in revenues, compared to the same quarter in 2013. The increase is primarily driven by growing adoption of our Select Mobile Remote Deposit Capture solutions which were processed across our cloud-based software platform.

Before I go further, I would like to turn the call over to our CFO, Darin McAreavey, who will take us through the financial details for the quarter. Afterwards I will return to talk more about our operational highlights and business outlook for the remainder of the year. Darin?

Darin McAreavey: Thank you Jeff and welcome everyone. Revenue in the second quarter of 2014 ending June 30th increased 120% to 609,000 from the same year ago quarter. As Jeff mentioned, the improvement was primarily due to increased adoption of our Select Mobile RDC solutions. This was driven by a larger number of banks and credit unions which had implemented our RDC software and thereby enabling the processing of customer transactions. Our RDC recurring revenue, which includes transactional as well as our ongoing monthly maintenance and hosting fees, represented approximately 434,000 or

70% of total revenue in the second quarter of 2014. This is up 195% from 147,000 in the same year ago quarter.

Although our recurring revenue figures are modest because our Company is in the relatively early stage of recurring revenue generation, we expect recurring revenue to be a significant part of our revenue model as we continue to activate both existing customers, already under contract, as well as new sales of our RDC products. 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's valuation. Therefore transactional volume will be a key metric for our ability to scale and generate sufficient revenues to ultimately achieve consistent profitability.

In addition to recurring revenue, we also generate revenue from the upfront payments associated with our initial implementation of our solutions. Since we are a SaaS-based provider, we are required to amortize these fees and the revenue on a straight-line basis over the life of the contract which is typically three years. As of June 30th, 2014 we had a total deferred revenue balance of approximately $1 million.

In March of this year we acquired a mobile money management platform from DeviceFidelity. The platform Select Mobile Money is much like a mobile banking platform that is dedicated to the prepaid cardholder. Although our revenue generated from this new product offering was not material during the second quarter, we believe it will be a growing part of our business in the second half of 2014 and beyond. The typical upfront implementation and other integration development fees generated for these opportunities range from the low to mid six figures. In addition we will generate revenue based on the number of active users, 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 second quarter of 2014, we announced the launch of our first Select Mobile Money offering with Navy Federal Credit Union, which is the world's largest credit union. Jeff will provide additional commentary on this deployment as well as other recently announced wins. In fact since the end of June, we have received orders totaling 421,000 as we start to bring these customers live and gain greater insight into user acceptance. We will be able to provide visibility into the anticipated recurring revenue we will generate from this new offering going forward.

Cost of revenues for the second quarter of 2014 totaled approximately 717,000, an increase of 8% from 666,000 in the year ago quarter. The increase was primarily due to higher amortization expense associated with intangible assets acquired as part of the Select Mobile Money acquisition in March 2014. As our overall revenue continues to grow, we expect our cost of revenue to remain relatively fixed as part of providing these services. We have made significant investments into fixed costs that support our current and expected future operations, and as revenues increase we expect gross margins to also improve.

Total operating expenses in the second quarter increased 58%, to 2.5 million as compared to 1.6 million in the same year ago quarter. The vast majority of the increase was due to an increase in research and development expenses related to our acquisition of DeviceFidelity. Additionally, the Company saw an increase in sales and marketing expense as we continue to position ourselves to gain market share. As a result of this acquisition, we can anticipate expenses in these two categories will be higher in 2014, when compared to the prior year.

Our G&A expenses were also up 291,000 in the second quarter of this year, compared to the prior quarter, as a result of higher levels of professional fees incurred primarily associated with completing the reverse merger and public company related expenses. We anticipate incurring additional professional fees related to the ongoing requirements of being a public Company and as a result we expect our G&A expenses will be higher overall in 2014 when compared to the prior year.

Our net loss for the second quarter of 2014 totaled 4.2 million, or $0.65 per basic and diluted share. This compares to a net loss of 2.8 million, or $0.69 per basic and diluted share in the year ago period. The increase in net loss was due to higher operating expenses as a result of our acquisition of Select Mobile Money, partially offset by an increase in revenue.

Our Adjusted EBITDA loss, a non-GAAP metric for the second quarter of 2014 totaled 2.3 million. This was up from 1.7 million in the year ago period. Again, the increased loss was due to higher operating expenses from the March acquisition, partially offset by an improvement of our gross loss for the periods presented.

Now turning to balance sheet; at the end of June 2014 we had a total of $29,000 of cash on our balance sheet. Subsequent to quarter end on July 14th, we completed an initial public offering in which a total of 4.5 million shares of common stock were issued at $1.50, resulting in gross proceeds of 6.8 million. The proceeds net from the offering were approximately 5.5 million after deducting commissions and offering costs. As part of the offering, we converted approximately 6.3 million of existing indebtedness into 5.1 million shares of common stock. Following the offering we had approximately 17 million shares outstanding.

After the repayment of debt related to the Select Mobile Money acquisition and other short-term borrowings that become due upon completion of the IPO, our available cash for operations as of this date totaled 2.2 million. Our overall cash related indebtedness, including principal and accrued interest of approximately $14 million at the end of June was reduced to 4.5 million following this transaction. After paying existing trade payables owed as of this day, we had approximately $1 million for working capital.

On July 30th, 2014, we entered into a commitment agreement with two members of our Board of Directors, which provides us unrestricted access to a 2.5 million loan facility in the event we do not have enough funds to operate our business through December 31st, 2014. As a result we filed a 10-K/A to remove the going concern opinion issued by our auditors for the year ended December 31st, 2013. As we move forward we will continue to assess the working capital needs of the business to ensure we are able to execute against our business plan.

This completes my financial summary. I will now turn the call back over to Jeff. Jeff?

Jeffrey C. Mack: Thanks Darin. As I mentioned this is our first earnings call as a publicly traded company. So for the benefit of those new to our story, as I proceed to discuss some of our recent operational highlights, I'll provide some additional details about our products and services and how they benefit our customer and end users and the industry trends that support our growth. As we have all been witnessing, mobile functionality is quickly becoming a central component to the financial services industry. Cachet is clearly at the forefront of this trend with a more secure and robust technology being offered in the market today. In fact more than 2,000 US banks now offer Mobile Check Deposit, which has increased 100% over the last year, and among these banks more than 10% now rely on Cachet for these products and services.

Over the past year consumers have deposited more than $150 billion using Mobile Check Deposit which has come from only an estimated 11% of consumers that have used Mobile Check Deposit. We now have a total of nine distinct product offerings, included within three main categories; Remote Deposit Capture, Risk Assurance and Mobile Money Management.

Beginning with RDC, which stands for Remote Deposit Capture, our RDC products allow banking credit union customers to scan checks remotely through their smartphones, tablets or other stationary computing devices and then securely transmit the scanned industry compliant images to their bank or credit union for immediate depositing, posting and clearing. The actual paper check can then be discarded or filed locally since it's no longer required to complete the deposit. We provide this RDC solution as a cloud-based Software-as-a-Service to banks, credit unions and other types of financial institutions and financial service organizations, who then in turn offer it to their merchant and personal banking customers.

RDC represents a major shift in consumer behavior, as more and more people in businesses realize the convenience of this technology and deposit checks using RDC. Our results reflect this trend, as RDC mobile transactions in Q2 2014 increased to 762,910, up 20% from the previous quarter and up 264% from Q2 2013. By the end of the second quarter, we had sold a total of 286 products, which is up 11% from the end of the previous quarter and up 55% versus the year-ago period. To-date we have sold multiple products to approximately 5% of our existing customer base, which presents us with a tremendous opportunity to further penetrate these accounts with all of our product offerings. Of these products sold we had a 182 fully implemented by the end of the second quarter, increasing 22% during the quarter and up 143% versus the same year-ago quarter.

Now that we have completed most of the integration work into the main core providers, we have been able to significantly compress the amount of time it takes from when we sell a product to bring them live. On our Select Business RDC offering, we continue to increase in our merchants we serve. By the end of the second quarter Cachet served a total of 408 merchants, which is up 12% from the first quarter and up 19% from the same year-ago quarter. We are currently in the process of completing the development of our own proprietary Select Business RDC offering which we will be launching in late August. We believe this enhanced, more feature-rich solution will be a key differentiator for those banks and credit unions looking to provide their merchant customers a better RDC user experience.

Now in our second product offering category of Risk Assurance, we just recently launched our new CheckRisk Pro product. The new offering enables financial institutions to collect and process remote deposit information from multiple sources, including ATM, branch, mobile, and more, regardless of the vendor. This unique hosted platform offers financial institutions the ability to tailor their risk mitigation process to their specific needs by quickly identifying when an item is being deposited multiple times. Cachet first led the RDC industry with CheckReview, our patent-pending tool for monitoring check images in real time. But we recognized that 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 and regardless of the RDC vendor.

The unique platform offers financial institutions the ability to tailor the risk mitigation process to their individual needs. This could include streamlining the workload so it can function as an autonomous system or with varying levels of manual interaction; flexible decision-making rules covering a variety of variables, including multiple deposits, velocity metrics and creating customizable reports and metrics for tracking operational performance of their RDC program.

Lastly, our mobile money management offering allows users the capability to manage a prepaid credit card with their smartphones and tablets via our cloud-based applications. For those of you using a mobile banking platform from your financial institution, Select Mobile Money provides the same capabilities for the prepaid cardholder. This cloud-based 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, as well as, set up bill pay, access customer service support and earn cash back from location-based offers which are issued by local merchants.

As Darin previously mentioned during the quarter, we launched our first Select Mobile Money offering with Navy Federal Credit Union which also happens to be the world's largest credit union with more than five million members. Our technology supports a Navy Federal Credit Union program designed to offer credit union members a money management tool geared towards students called Visa Buxx. Our Mobile Money Management application allows student cardholders to view balances, request money from their parents through text, email, or In-App notifications, and use the location feature to find the nearest branch or ATM. Parents are also given the ability to monitor these transactions and balances and transfer funds directly from their Navy Federal debit and credit card. They also have the ability to suspend the card if needed.

Certainly the Navy Federal Credit Union explored their options and they had their choice of other providers. So their selection of Cachet represents not only a huge win for us, but a valuable endorsement of our Select Mobile Money platform. Also during the second quarter, we signed a contract with FirstView, a prepaid debit card program manager and processor to provide our prepaid mobile applications to their cardholders. This was also a significant win as they have a total of 15 card programs that could potentially use our application.

Building on our momentum in Q2, we recently partnered with a top five commercial bank in the US to implement a prepaid mobile platform for one of the world's largest supermarket chains. This major win reaffirms the strong value proposition of our Select Mobile Money platform and particularly its unique features and capabilities that enhance the experience of the banking customer.

In addition, we entered into agreement with one of the world's top credit card processors with a contract value totaling $227,000. As part of this agreement, our Mobile Money Management service is now being endorsed by this credit card processor for any issuing banks, card program managers or other financial service organizations looking for this type of prepaid mobile wallet application. This relationship has been instrumental in us not only attracting some of the more significant customer wins we recently announced, but also many of the larger Mobile Money Management opportunities that are currently in our pipeline.

In summary, in Q2 we have made substantial investments into our product offerings and are beginning to see our efforts payoff. Looking ahead, our expectations for 2014 remain as high, as we build upon these successes and address the widening pipeline of opportunities ahead. Demand for mobile banking technologies continues to build. We are well positioned with industry leading solutions and a strengthening customer base.

We believe these key factors and strong industry tailwinds will help us expand our market share and continue to drive strong revenue growth in the quarters ahead. Now with that, we are ready to open up the call for your questions. Joining Darin and I for questions is Larry Blaney, our Executive Vice President of Sales. Operator, please provide the appropriate instructions.

Operator: Certainly, ladies and gentlemen, at this time 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, and 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. Once again that is star, one if you wish to ask a question at this time. One moment while we hold for questions.

Our first question comes from the line of Kris Tuttle with SoundView Technology. Please proceed with your question.

Kris Tuttle: Yes, I actually had a couple. First maybe is for Larry, just on the—you've got these three major product lines and with the offering you are expanding your sales efforts. Can you talk about how the sales process is organized? Does everybody sell all products? Are they organized into teams, what's the current size in the sales force and also if you can share some sales force productivity in terms of either planned quota increases or overall productivity metrics?

Larry C. Blaney: Yes, so thanks for the question Kris. So we did have a generalized sales force initially and as we've added more products to the mix we've changed that. So at the end of Q2, we changed our approach to actually selling, not by protocol market but by product market. So for instance we have a sales force now that's just focused on selling Mobile Deposit Capture, our bread and butter product, as well as our Mobile Platform with the turnkey, it's a Master Card program, et cetera.

Then we have another team selling our Risk Mitigation products and then selling our enterprise white label product. So we believe that this will be a more focused approach and we'll get the results that we need. As far the goals go with Mobile Deposit Capture, we are literally signing about a contract every other day. This is with our direct sales force and our partners, we have—I have upped the goals for the team because now they're selling less products if you will, and they're more focused on who they're selling to, and then with the enterprise sales, the sales cycle is a little bit longer and I've adjusted the goals for that side.

Kris Tuttle: Okay, thanks. The other small question here is you talked about the business—multiple (ph) deposit capture offerings, what's special about that?

Jeffrey C. Mack: Our Remote Deposit Capture, are you talking about Mobile Deposit Capture?

Kris Tuttle: Well, you mentioned that in terms of the number of merchants you serve that you were coming out with a specific offering that had some additional features for merchants that you thought would be important to ramp up in that market. I was just curious what those features might be?

Jeffrey C. Mack: On a merchant capture side what we've done is we have enhanced the whole visual experience. So we've created a dashboard and so they can go ahead and set different metrics, they can go ahead and see their check deposits, they can see their history, they can go ahead and do queries. We're running on a PC and Mac, which is quite unique in the industry. Then we've also are adding a mobile component. So that the business owner can actually take a look at all the transactions from his delivery drivers, from his (inaudible), from the people out on the field that are making deposits and on that mobile side they can also make multiple deposits. So it's not a single deposit and they can also add some remittance features to that platform. So those are some of the features we've added.

Kris Tuttle: Okay, that's helpful. I get it, I get that. Last question and then I'll yield. You talked about the debt reduction in concert with the equity offering and I was curious, the interest expense, it was 1.7 million in the June quarter. What's your feel for how that will—what's the new run rate on that going to be in round numbers?

Darin McAreavey: Yes, it should drop substantially. There was a lot of kind of non-cash related items in that interest expense number for the quarter, some equity issuances tied to the debt. So as we look forward, again we'll have roughly 4.5 million outstanding, come at an average rate of call it 15%.

Kris Tuttle: Okay. All right, very good. Thanks a lot.

Jeffrey C. Mack: Okay, thank you.

Kris Tuttle: (cross talking).

Operator: Thank you and we will pause again for a few more moments to see if there are any further questions. Again that is star, one on your telephone keypad if you would like to ask a question and a confirmation tone will indicate that your line is in the question queue. If you are using speaker equipment, you may need to pick up your handset before pressing those star keys. Once again that is star, one, and we'll pause again for a few more moments to see if there are any further questions.

Okay and we have another question from the line of Kevin Greene with James Alpha Management. Please proceed with your question.

Kevin Greene: Yes. Thank you gentlemen for a review of the quarter. Halfway into the second quarter, good way through the year, just wondering how things are looking—I'm sorry through the third quarter, how things are looking for the third quarter, and is the momentum keeping up and what sort of goals do you have for the full year?

Larry C. Blaney: So the third quarter. This is Larry. Third quarter is right on target. We are—the third quarter as far as the ramp up on revenue is there. We have significant contracts coming in and already signed, so…

Jeffrey C. Mack: Yes, again overall we're not providing guidance at this point, I think primarily due to just some of our new product offerings, the amount of fees that we will be able to generate are much larger in scope than our traditional RDC offering. So until we build some, you know, a level of history here that we can point to that early forecast level, we're not providing guidance at the current moment. But as Larry alluded to, we're tracking to our internal plan.

Kevin Greene: Okay, thank you.

Jeffrey C. Mack: Thanks.

Operator: We'll pause again, one more time. Again that is star, one on your telephone keypad if you would like to ask a question. A confirmation tone will indicate that your line is in the question queue and you may press star, two to remove your question from the queue; one moment while we hold. Okay, so it seems that we have no further questions at this time and I would now like to turn the floor back to Management for some closing remark.

Jeffrey C. Mack: Well, thank you to 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. We look forward to updating you on our next call, and now I'll turn it back over to the Operator.

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 the Securities Exchange Act of 1934. Future events, risks and uncertainties, individually or in aggregate, could cause actual results to differ materially from those expressed or implied in these statements.

Factors that could cause actual results to differ are identified in the Company's public filings with the Securities and Exchange Commission, SEC, and include the following: our inability to execute our growth strategy; our inability to maintain the security of the customer or Company information; the impact of complying with laws and regulations relating to our trading and financing operations; changes in our liquidity and capital requirements; changes in the political or economic environments of the countries in which we do business; the loss of key management or trading personnel; our exposure to commodity price risks; concentration of credit risk and the risks of default of our counterparties; the demand nature of our credit facility; the possible loss of a key government distributorship arrangement; potential losses in connection with our financing operations; the inability of our historical financial statements to be indicative of our future performance; the impact of increased cost associated with being a public company; our inability to maintain effective internal controls as a public company; our inability or determination not to pay dividends; low trading volume of our capital stock due to limited liquidity or lack of analyst coverage; and the ability of our principal shareholders to exert substantial control over us or prevent a change of control.

The words should, believe, estimate, expect, intend, anticipate, foresee, plan and similar expressions and variations thereof, identify certain of such forward-looking statements which speak only as of the date on which they were made. Additionally any statements related to future improved performance and estimates of revenues and earnings per share are forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

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 or GAAP 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 the 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 manage expenditures. The method the Company uses to produce non-GAAP results is not computed according to GAAP, is 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 a 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.