

Title: Calpian Fiscal Year 2016 Earnings Conference Call



# CALPIAN

## CORPORATE PARTICIPANTS

**Harold Montgomery**, *Chairman and Chief Executive Officer*

**Scott Arey**, *Chief Financial Officer*

**Douglas Schiller**, *Moderator*

## PRESENTATION

**Operator:** Good day, and welcome to the Calpian Incorporated Earnings Call 2016. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Douglas Schiller. Please go ahead, Sir.

**Douglas Schiller:** Okay. Thank you, everyone, for joining us for the Calpian Earnings Call covering Fiscal Year 2016 which closed on March 31, 2016. You could find the presentation for today's call at ViaVid.com. That's <http://public.viavid.com/index.php?id=120446>. One more time, <http://public.viavid.com/index.php?id=120446>. At the end of this call, we will be opening it up to general questions and answers. To submit a question, please enter it into the question box on the web link and I'll read it so that those not able to see this on the Web can hear it.

Okay. Now I'm going to read the Safe Harbor provision. This presentation contains forward-looking statements for purposes of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. With the exception of historical information, the matters discussed in this presentation are forward-looking statements that involve a number of risks and uncertainties. The actual future results of Calpian, Inc. could differ significantly from those statements. Factors that could cause actual results to differ materially include risks and uncertainties, such as the inability to finance the Company's operations, inability to hire and retain qualified personnel, and changes in the general economic climate, as well as the risk factors disclosed in Calpian, Inc.'s Form 10-K filed on December 1, 2015. Calpian, Inc. may, in some cases, use terms such as anticipates, continues, estimates, predicts, believes, potential, proposed, expects, plans, intends, may, could, should, might, will, or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. These statements are only predictions. Although we believe that the expectations reflected in the forward-looking statements are reasonable, such statements should not be regarded as a representation by Calpian, Inc. or any other person that such forward-looking statements will be achieved. Calpian, Inc. undertakes no duty to update any of the forward-looking statements, whether as a result of new information, future events, or otherwise.

In light of the foregoing, leaders are cautioned not to place undue reliance on such forward-looking statements. This presentation does not constitute an offer to sell or a solicitation of offers to buy any

securities of any entity. It is now my pleasure to introduce Calpian's Chairman and CEO, Harold Montgomery. Harold?

**Harold Montgomery:** Thank you, Doug. Good morning to everyone on the call, and thank you for joining us today. My name is Harold Montgomery. I'm the Chairman and the CEO of Calpian, Inc., and welcome to our earnings call. Joining me today from Dallas, Texas Headquarters is Scott Arey, our Chief Financial Officer, who will be speaking later.

Before we focus on the financial results, though, for the fiscal year ended March 31, I would like first to cover a few points for the benefit of Shareholders who may be new to our Company. A bit of history, Calpian, Inc. was launched in 2011 to acquire assets in the payment processing business in the United States. In April 2012, Calpian began investing in MoneyOnMobile, a Mumbai, India-based mobile money system catering to India's vast unbanked and under-banked populations with simple transaction services. MoneyOnMobile allows consumers to deposit cash with one of our agents at a retail location. Their cash deposits become digital currency in our computerized record system, just as if the consumer had made a deposit at the bank. Then the consumer or the agent acting on behalf of the consumer can perform financial transactions, such as bill payment, money transfer, and others using only the mobile phone and SMS text messages.

This system is more reliable and cheaper and much easier than transacting in all cash. The India market is the largest unbanked or under-banked market in the world, with approximately 600 million to 800 million individuals in that category. Since we began investing in MoneyOnMobile in 2012, it has grown to be India's largest mobile money system. In reaction to that, the Calpian, Inc. Board recognized the opportunity for extraordinary growth and value creation there last year and instructed the Management Team to sell the Company's US operations in the payment processing business. That sale was completed on November 30, 2015. Calpian, Inc. is now a pure play company with only one focus: the growth of MoneyOnMobile.

In the last four years, the Company has enjoyed a tremendous growth surge. We served over 175 million cumulative customer users in India, and we now have over 300,000 participating agents where consumers can load cash. We performed approximately 128 million transactions with a value of over \$754 million over the last 12 months, serving approximately 7 million to 8 million customers each month.

MoneyOnMobile offers a wide range of payment solutions, as you can see on Slide 5, including domestic remittance, bill payment, mobile top-up, which is purchase of prepaid mobile time, and direct-to-home television. Direct-to-home television is satellite TV, which is also prepaid in India. We can also serve travel tickets and we are beginning to provide e-commerce and even insurance solutions.

Here are some examples of MoneyOnMobile in action on Slide 6. This is a picture of a woman in Hyderabad, India performing an over-the-counter mobile top-up transaction for one of her customers in a typical store, which you can see is a small convenience store. This is typical of the kind of retail that you find in India.

On the next slide, 7, here's another example of a local farmer on the right, having recently sold his produce in the marketplace using our service to send money back home with our agent on the left. We're especially proud that MoneyOnMobile is a global leader in financial inclusion, bringing basic financial services to Indians who are forced to carry and transact only in cash. The Company provides its services to underserved populations which have largely been overlooked by traditional financial services providers. In particular, we serve many millions of women throughout India who can transact using our services without venturing far from home. As the Company grows, we are serving more underserved areas in towns and villages across India.

On Monday, as you can see on Slide 8, we announced a partnership with the Kalighat Society for Development Facilitation. It's an NGO headquartered in Kolkata, India, working with approximately 75,000 female ambassadors who were involved in financial education and creating income opportunities for women

in underserved areas of Bihar, Jharkhand, and Bengal, which are some of India's poorest states. The women of the Kalighat Society pictured here are being trained how to operate MoneyOnMobile with the goal of making them agents for our services. This will provide them an income-generating opportunity, while bringing basic financial services to remote areas in a successful partnership with MoneyOnMobile.

You can think of these roaming agents as independent businesswoman earning their own income based on providing MoneyOnMobile services to friends, neighbors, and relatives. We're very proud of this relationship and excited about rolling it out over the course of the next year, and it sits very nicely with our Corporate ethic of doing well by doing good. I want to assure you that this is a commercially successful relationship for MoneyOnMobile.

Our partnership with the Kalighat Society is a good example of how MoneyOnMobile is transforming from just a payment system into a job opportunity for tens of thousands of entrepreneurial Indians throughout the country. To date, we have created about 6,000 jobs of area distributors, entrepreneurial opportunities which have allowed our partners to earn money by marketing and maintaining MoneyOnMobile services in their town or village. We believe our business model makes it difficult to replicate our business and serves as a barrier to entry. The GSMA, the international cell phone association which tracks this sort of thing, rated MoneyOnMobile as the second-largest mobile money system in the world in 2015 as measured by user count. We're quite proud of this distinction, particularly since most mobile money deployments around the world have not scaled beyond 1 million users, but MoneyOnMobile has approximately 8 million monthly users.

Success in our business depends on scale. MoneyOnMobile has developed a revenue-sharing formula that allows each of our stores and the 6,000 area distributors who manage them to share in our revenues. In this way, we acquire our customers at minimal capital costs, and in addition, the natural incentive structure of the revenue sharing model motivates everyone to do their part to make the Company successful. Not only do we acquire our customers for a very low cost, but we also have the lowest cost of processing for small value payments, which are quite typical in India. We can and do process payments of just a few rupees quite profitably. Our cost of processing stands in stark contrast to the high cost methods of credit cards and bank accounts used elsewhere.

Another reason scale is important can be seen in the financial performance of a company similar to MoneyOnMobile, a Russian company called QIWI—you can find it on the NASDAQ under the ticker symbol QIWI—which operates in Russian and is traded on the New York Stock Exchange. QIWI—QIWI, again—is a remarkably profitable company that has grown net income at a double-digit rate for four of the last five years. QIWI currently has a market capitalization of about US\$730 million. We believe that India also holds this potential since our market is many times larger than that of Russia. In fact, we estimate that our model holds the potential for up to \$8 billion in annual net fee revenue for financial transactions of the type that we do, many times that of QIWI's market.

Recently, we announced the receipt of investments into our Series E Convertible Preferred Stock, here in 8-K. The financing was conducted in Europe and Russia, two markets that are very familiar with India, and payments companies serving the unbanked, such as QIWI. You may have noticed that the minimum conversion price on the Series E Preferred is \$1.34 a share, well above our current market price. I believe this reflects the Investors' confidence in the Company, an estimation of the true value of MoneyOnMobile.

Finally, I'm pleased to note that, among other achievements of the year, we added Jim McKelvey, a Founder and currently a Director of Square, to join our Board in June. Square, as you may know, is a public company traded on the New York Stock Exchange under the symbol SQ. Jim is sharing his experience and the experience of growing Square into a \$3 billion market GAAP (phon) company with us, and we're pleased and honored that Jim has made this commitment to Calpian and look forward to working with him in the future.

Now I'd like to turn it over to Scott Arey, our CFO, to present the financial results for the period ended March 31, 2016. Scott?

**Scott Arey:** Thanks, Harold. I'd like to present a financial overview and talk about the trends and processing volume, revenue, and the gross margin for the last eight quarters through March 31, 2016, which is our fiscal year-end. Comparing the last two fiscal years' results on Slide 10, net revenue was US\$6.2 million for 2016 compared to US\$5.8 million for the prior year, up 8% in US dollars as we report them. On a currency-neutral basis, our revenue grew 15% for the fiscal year ended March 31, 2016.

While increasing our revenue, cost of goods sold declined US\$3.2 million from US\$3.5 million, which represents a 10% decrease on a reported basis and a 4% decrease on a currency-neutral basis. This is the result of diversification of our product base into higher margin products, primarily money transfer. As a result of this, our operating margin increased 36% on an as-reported basis and 44% on a currency-neutral basis. This translates into a 10-point increase in our reported gross margin percent from 39.2% to 49.2%.

Currency-neutral basis is us looking at the reports in the local currency, Indian rupee, without doing any foreign currency adjustment or translation. That translation is done in order to do our US GAAP reporting through the SEC reports that you see online.

It should be noted that while this is significant improvement for the Company, the Company continues to post operating losses as we build the business and has had significant losses in the US as a result of the restructuring done to make us an India pure play, as Harold mentioned in his earlier remarks.

On Slide 11, let's now take a look at our process volume trend over the past eight quarters. Harold previously mentioned that it had grown 247% year-on-year. If we look at the fourth quarter 2016 and compare it to the Q4 of fiscal year 2015, our processing volume increased by 311%, quarter compared to quarter. Our main growth driver in this processing volume increase was domestic remittances.

Going to Slide 12, moving on to revenue, this slide is a quarterly snapshot of our revenue as reported in US dollars. As previously mentioned, we had an 8% increase year-over-year; however, if you compare Q4 fiscal 2016 to Q4 fiscal year 2015, you'll see growth of 15%.

Finally, if we look at the last eight quarters of gross margin, we see a significant trend of margin improvement on an absolute dollar basis, and on a gross margin percentage basis, the Company posted a 51% margin for the year, which is about 10 points over the prior, largely reflected, again, of the diversification of the products, particularly shifts into money transfer. Again, despite this progress, the Company still has significant operating losses as we grow the business.

The total comprehensive operating loss, which we will report on our 10-K, is \$21.2 million for the year ended March 31, 2016 as compared to \$10.6 million for the prior year. As previously mentioned, the non-cash charges, financing costs, and the sale of Calpian's domestic business are the source for most of these losses. The operating loss in India only on an unadjusted basis, not accounting for noncontrolling interest, was \$4.4 million for the current year as compared to \$3.9 million for the prior year.

Now I'll hand it back to Harold who will talk about what's coming up next.

**Harold Montgomery:** We continue to see strong growth opportunities in the Indian market, and we intend to continue to grow MoneyOnMobile along the following lines. First, it's important to increase our store count footprint and distribution system throughout India. We currently cover all states in India, with an emphasis in the eastern states, and now we need to penetrate deeper. Our longer-term goal is to have 1 million locations throughout the country and eventually be within about a quarter of a mile of 80% of the Indian population. We intend to go both broad throughout the country and deeper into metropolitan areas with high traffic zones, which have proved very beneficial for us in the past. We've been experimenting with branded locations with good results and are looking to increase the scope of this program in the future.

Second, increasing the frequency of use by our customers will be important to us. We have seen that customers who use MoneyOnMobile tend to use it more as they see more services emerge and become familiar with the system. Increasing the frequency of use is a key driver for our future growth. Third, increasing our offerings by increasing the share of high-margin transactions. Domestic remittances, for example, have been a strong growth area for us this year and are higher-margin and higher ticket value transactions for us.

Fourth, we will continue to look for other talented, experienced Board Members for the Calpian Board, such as Jim McKelvey, to join in the United States to help with our efforts. Five, we have taken the first steps to change the name Calpian to MoneyOnMobile. We conducted a Shareholder vote that was held on July 11, 2016. Unfortunately, we have not yet received a quorum of votes and need to do so by the extended deadline of August 9, 2016. Any Shareholders who are listening who have not sent in a proxy, please do so, so we can have a two-thirds vote completed by August 9. We will investigate an uplifting strategy at the earliest possible opportunity.

For all these reasons and more, we continue to be excited and confident about the future of MoneyOnMobile. Now I'd like to hand it back to Doug for Q&A.

**Douglas Schiller:** Thank you, Harold and Scott. We're now going to move to the Q&A portion of the call. As I stated in the beginning, I will read questions sent in via the web link so that people on the call who don't have access to the Web can hear them.

The first question is: have you filed your 10-K yet? If not, why; and if not, when do you expect it will be filed?

**Scott Arey:** I'll fill that one. This is Scott Arey. The results of operations for the fiscal year ended March 31, 2016 included in this presentation have not been audited and are subject to change. However, after consulting with our auditors, Management is of the opinion the results presented herein are reasonable estimates of those that will be included in our audited financial statements. Full results will be published in the Company's 10-K report for the fiscal year ended March 31, 2016. We anticipate this filing will be made within a matter of days of today and not weeks.

**Douglas Schiller:** Okay. The next question: how significant is the deal you mentioned with the Kalighat Society, and when will we see the financial impact?

**Harold Montgomery:** I'll take that one. This is Harold. I visited the Kalighat Society in Kolkata two weeks ago to tour their operations. They have approximately 75,000 female agents in India who will be signing up with us over the next few months. I would expect the rollout to take approximately a year. We should start to see the impact of the Kalighat Team before the end of this calendar year, but at this point, it's impossible to predict the financial impact.

**Douglas Schiller:** Okay. Okay. Another question. In the last earnings call, you said that you need to have an agent in 1 million stores to be profitable. Are you still on track to meet that target?

**Scott Arey:** Actually, I'd like to correct that question just a bit. This is Scott Arey. We think that we can become profitable with our existing store count with more of existing agents selling more services. However, we do have a defined goal of reaching a 1 million store count, and that plan presumes that we'll be profitable when we achieve it. In other words, we will not sacrifice the goal of profitability in order to achieve a higher store count. Deals like the Kalighat Society are a key part of the strategy to cost-effectively increase the number of agents on the network.

**Douglas Schiller:** Okay. The next question: you talked about the name change previously; are you still planning to change the name of Calpian to MoneyOnMobile?

**Harold Montgomery:** Yes. We're working to get that done. In fact, we sent out a proxy vote to Shareholders to approve it. All the ones we've got back have been uniformly in favor of the proposal, but we do need more Shareholder votes. It's the summertime, difficult for people to focus on this, I think, but we're making an outreach effort to round up as many proxies as we can. Again, any Shareholders listening in who have not submitted a proxy on this topic, please do so or contact me and I'll get you a proxy if you don't have it any longer. The deadline has been extended to August 9.

**Douglas Schiller:** Okay. We have time for one more question. You mentioned that Jim McKelvey, Founder of the payments company Square, joined the Board of Directors of Calpian. What Jim's view of the prospects of the business?

**Harold Montgomery:** Well, I can't speak for Jim directly, but he was recently interviewed by PaymentEye, an online industry trade journal, and we expect that interview with his comments to be available on video within the next few weeks. You can definitely expect a press release from us when it happens, and so we'll let you know and then we—I think it's best that we let Jim speak for himself.

**Scott Arey:** Okay. This is Scott Arey. Thank you to everyone for joining this call. We will have a transcript and recording of the call available on our new website later today. Thanks very much and good day.