CALPIAN
The World's Choice for Payments

Investor Conference Transcript

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<<Harold Montgomery, Chairman and Chief Executive Officer>>

So thank you all for coming today, I appreciate it. I'm going to talk you today about Calpian, Inc., which is a two-footprint model. We have – our U.S. business is in payment processing for small retail. It's kind of a steady mature industry. We grow by acquisition here. We acquire customers from independent dealers in this space. We typically pay two times cash flow and we are scaling that business now. That's sort of the bread and butter that pays the bills, but the upside on the equity piece of our equation is really Money-On-Mobile, which is an explosive growth opportunity in mobile payments in India.

You've seen the safe harbor statements, I'm not going to spend a lot of time on that. The company is small market cap, Calpian, CLPI, trading right around the dollar today. We've got some debt on the balance sheet related to our U.S. enterprise. We cash flow that nicely, it's not a big issue, $13 million of senior, $5 million of junior debt, we have nice cash on the balance sheet. We have enough shareholders to uplift, we need the share price to come up and we will put in our application to uplift to the AMEX or the NASDAQ.

A quick look at the investment highlights though. You have a very experienced management team. I'm 25 years in the payments base. You have a good growth opportunity with accretive cash flows in the United States through an aggregation model on a fixed overhead model. Every time you add $1 of cash flow go straight to the bottom line. This is something I've been doing for 10 years with my partner. We've been in that business, underwriting portfolios for a long time. Done over 200 acquisitions in this space and we are going to keep going with that.

But the explosive growth is really in India. Last quarter, the company grew 34%, quarter-to-quarter and it's a giant greenfield market opportunity that we are in in cellphone payments in India. That's where I'm going to spend most of my time on this morning. But first I want to tell you about the management.

I've been 25 years in payments after I got my MBA at Stanford. I bought a company in payments; I've been in in ever since. Shashank, our president in India, is 10 years in the payments base. My partner in Dallas, Craig Jessen and I have been working together for 23 years. Scott Arey, our CFO, is new to our team after a year, but he was CFO of Commercial and International Trade Banking at Bank of America. And Tom Tesmer is our CTO in Atlanta and our COO and he's got 30 years in this space.

So, again, just to give you a brief on the U.S. side, it's a steady kind of cash flow business. It's recurring monthly revenue from small retail stores. We grow by adding portfolios through acquisition, which again we are buying at 2 times cash flow.

The organic growth is coming out of India. It's a mobile payments company that allows consumers to make simple financial transactions using only their cellphone. These are not smartphones; they are simple feature phone of the type we used to have here in the 1980s. We began investing in that company in 2012. We have the right to buy up to 74%, we are at about 70% today.

And so, in our model, you really as an investor getting the best of both worlds with a steady product here. And right now, at $1, you are basically buying the U.S. business at fair value and you are getting India for free. That is where our price point is in the market today.

So let's focus then on Money-On-Mobile, since that's the organic growth story. First of all, consumers use the cellphone to make simple payments. Here is the key step, we are a company that converts paper currency into digital form, into digital cash, not like Bitcoin. We give people, just as you have in your bank, rupee for rupee or dollar for dollar equivalency valued, then you can use your cellphone to move it around. That's the key thing, right.

So we'll talk more about that, but we deliver it through retail stores. Throughout the country we have over 200,000. And the functionality is that it replaces the check or the debit card. Remember that substantially India is non-banked, so people do not have a bank account. They are walking around with big wads of cash, paying all their monthly bills going from place to place to place. And we consolidate that down into one stop.

We are positioned to capture and participate in e-commerce growth. So very quickly India is a huge place, middle-class is raising, economy is opening up and growing nicely. Recent elections mean that things are opening up. It is going to be, I think, and a lot of people agree, the next global growth engine. The Wall Street Journal pointed to that back in May when the election happened and the new prime minister came in. They are talking this being the explosive moment.

Our company was featured in The New York Times in December of last year as catching traction with India's poor. Amazon is moving into the company. This is not a competitor of ours; we enable the e-commerce model in India by taking it out of COD and cash collection and into the digital world, right. People can now buy digital – can buy things using digital currency. They cannot do if it's all paper.

In addition to that, if you look at the Alibaba offering, you will notice that Alipay, which is their system for digital currency, is the key to their growth and that's what we do in India, right. We are becoming quickly the Alipay of India.

So the background quickly. A lack of bank accounts, only 200 million people have a bank account in India. In addition to that, that means there is no payment mechanism, no credit card, no debit card, no checkbook, you got to go and pay for everything in cash. That means that you are physically walking because the transportation system is very weak to your neighborhood store.

On the other hand, you have 900,000 million cellphones throughout the country. The simple feature phone is ubiquitous in India and growing at 8 million to 10 million new subscribers per month.

So you are going to have a substantial built in population. Smartphones are coming to India, but they are not there yet. So Money-On-Mobile is our system and we aggregate simple everyday transactions. All those cellphones that I talk you about are prepaid. You have to buy time on them frequently to use them, we sell that time. TV in India is satellite TV and also prepaid. When it runs out you are done. In addition to that, utility bill payment has to be done once a month in person.

We are adding travel ticketing now. We are moving into e-commerce now. They are not live, but they are in development. We have 204,000 retail locations and we connect to 99 million India consumers in the last two years. The stores do it, because they make money on commission on selling all these products here and the consumers do it, because it saves them time and money. They get everything done in one stop as opposed to having to go to all those locations.

This is the type of phone I'm talking about, you'll remember from the 1980s. This is what a utility bill payment center looks like in Chandigarh. This is what it looks like in Coimbatore. This is what it looks like in Delhi. This is a two hour experience at least most days and it's got to be done once a month and it's got to be done in person and it's got to be done in cash.

On the other hand, this is one of our stores that I visited in Hyderabad in May. You will see it's a broad range retail with diapers, food, personal items. These are our dangles, and this woman here is getting here cellphone topped up. I'll show you a video of how this works if somebody could start that for me. Can you initiate that video please?

[Video Presentation – Starts]

It's not easy to make payments sexy, but I think we got pretty close on that one right. So Money-On-Mobile connects all 15 cellphone providers. Let's just go with that example for the moment to 99 million, actually over 100 million consumers at the end of August, we just announced that number, through 204,000 retailers. That starts with the retailers buying into the system. They have to prepay to be part of the system.

Everything in our model is prepaid; everything in India is prepaid, so there is no credit risk in the model. We aggregate the cash and buy bulk cell time from these guys at a discount of about 4%, we resell it to the merchants at 3.5%, the consumer shows up, he wants to fill up his cellphone, we sell it to the retailer at 3.5% discount that consumer pays retail. This is a classic distribution model for any physical product, right.

If you think of the manufacturer, the distributor, the retailer, the consumer, everybody is getting a little cut on the whole thing. We windup keeping about 0.5%, which as we scale grow and add other product becomes up to 1% or slightly higher. E-commerce, as an example, is a 2% margin versus 0.5% on phone and TV.

So this is how the roll out has gone. We started with the company back here in April with 48,000 stores, we are now at 205,000. In terms of users, we've gone from 3 million to 99 million. We are actually now in August over 100 million. 30-day active users tends to fluctuate a little bit, but in July, it was 7.5 million, and in August, closer to 8 million.

Then, rupee volume has gone up to a record of 1.1 billion for August. This is about $18 million. This is a lot of little bitty transactions going. You can see, in July, $13.5 million, $14 million in August. We are growing 3% to 5% per month. Per user statistics started at 100 rupees, which is a $1.50, up to 142 rupees, which is slightly over $2 transactions per user. One per month going to two per month now.

Competition, we are by far the leader in this space. It's still very much a greenfield opportunity. You can see we are about 10 times bigger than this company here in Delhi, and these two phone companies have really not got off the ground in a material way. We also importantly have no major regulatory hurdles remaining.

In terms of product development, we are already with that group, cell time, TV time, and utility payment, and we are doing travel ticketing and e-commerce now. We think the total spend will grow. We expect that we could have 35 million monthly users in three years to five years driving $35 a month for a $1 billion a month of processing volume, which is where we are heading with this.

That would be consistent with the outcome of M-Pesa in Kenya. This is the granddaddy of all mobile money systems started in April 2007. And they have a 30 day active user account at 11.5 million, we're at 7.5 million. They process $13 billion a year or $1 billion a month, that target I just gave you. Operating revenue, net-on-net, about $287 million a year.

Keep in mind, India is a market that is 30 times bigger than Kenya. If you want a public market comp, look at QIWI on the NASDAQ. This is a company that is in Russia. Substantially similar to what we do, $15 billion a year of annual processing, net revenue on that $356 million, growing 12%, and market cap of $2 billion. This company went public on the NASDAQ in May of 2013. This is where we want to be when we grow up.

If you want to look at consolidated quarterly revenues for the last four quarters, we've been growing significantly. The dash bars are India. As you can see, substantially, most of our revenue comes from India, but nevertheless we do have good growth in the United

States. We were up 6% quarter-to-quarter. Here, we are up over 32% quarter-to-quarter, and obviously, larger increases before that. We expect the growth to continue.

In addition to that, we have cash. We just did a raise a quarter ago. We have adequate cash on the balance sheet. We are putting that cash to work in productive high growth investments.

So just to review for you quickly where we came from, we've 20 years experienced management team, I'm 25 years in the business, strong growth opportunity and good cash flows in the U.S., but explosive growth in India, growing 34% quarter-to-quarter. You get a monthly release from us showing the basic numbers. And in general, a greenfield opportunity with the leader in this space in the world's largest emerging market for mobile payments after China, which is India.

So that concludes what I wanted to talk about. I'll take some questions.

Question-and-Answer Session

<Q>: [Question Inaudible]

<A – Harold Montgomery>: Sure. If you'd have asked me that question a year ago, I'd have said regulatory hurdles, but we got clearance from the Indian government both as a foreign investor and as a license holder in India with the RBI back in October a year ago. So government regulation is not on the table.

<Q>: [Question Inaudible]

<A – Harold Montgomery>: No, no, it's a five-year renewal and you have to go back every five years and be audited. We are audited every quarter by the RBI, so we got to play it straight. I think the big issues for us now are execution play in India. Can we continue to stamp out both the footprint of the stores? We need to be at 300,000, 500,000 stores headed to 1 million stores, right? 100 million users is a giant number, but you really need to touch several 100 million.

<Q>: Where those stores be exclusive to you or where they –?

<A – Harold Montgomery>: They are.

<Q>: They are?

<A – Harold Montgomery>: Yeah, by contract. I'm not going to say they can't change their affiliation, but right now the appeal to the stores is that aggregation of services that I talked to you about TV, phone, e-commerce, all that, going to one little boutique store that I showed you a few slides ago. And if you add internet commerce to that, you open up all the inventory in the world to this little boutique that previously had diapers and candy, and now they can sell anything.

<Q>: [Question Inaudible]

<A – Harold Montgomery>: When you say participate, you mean through Money-On-Mobile?

<Q>: Yes.

<A – Harold Montgomery>: Yes, they want more product type, that's why we are adding travel or adding e-commerce.

<Q>: [Question Inaudible]

<A – Harold Montgomery>: Absolutely. The barriers to entry here are capital. Capital is very difficult to source in India, but we solved that problem by tapping into the U.S. capital market. It is technology to some degree. It is footprint, just shear size and scale. You can't really reproduce this. I mean it has taken us three and a half years to build what you see here and we're not done. So people ask me what happens if Alibaba shows up as they bring it on because they got to go out and sell everyone in these little stores too.

Because the key thing here, as I mentioned earlier on, is the conversion of paper to digital currency and that has to occur at the countertop, face-to-face, as you saw in the pictures, right? You are not going to get it done any other way. It's not that people can't get a bank account. They don't want a bank account. They are very clear about this.

I've been to India 13 times. I've spent months there now, cumulative. I go talk to people. I stand in the stores and say, why don't you have a bank account? They say, I could go right there and get one. I don't want it. Why? Because you make $200 a month, you are moving that money, you are spending it as fast as you possibly can. So you do not want it tied up in a bank. Because if you put it in on Friday and you can't get it till Monday or Tuesday, you will not eat over the weekend, so that doesn't work.

So this idea is that all of the sudden everyone in India is going to have a bank account is really not very realistic. And that's not how this is going to evolve. This is going to evolve with the cellphone as the primary financial tool and a smartphone would be a big plus by the way and it's coming.

<Q>: [Question Inaudible]

<A – Harold Montgomery>: It is the bank. We are the bank, right. For transaction purposes, we are the bank. These guys are not saving anything. They don't have anything to save.

<Q>: Could some regulation be moving as this increase?

<A – Harold Montgomery>: The government is 100% behind opening up this and the buzzword is financial inclusion. So if you read the press, financial inclusion, right after global warming and war, financial inclusion is the thing that's going on at the sort of NGO-government level worldwide because the power of this for government subsidy delivery, for tax collection, for income validation is gigantic, right?

So the governments get it. They are not in the way here at all. The RBI has been incredibly supportive and Ministry of Finance is incredibly supportive. So you won't have to look hard if you want to due diligence that to see pronouncements by the current Minister of Finance about how he wants mobile money happening, and he wants it now. I mean, the estimates or India would save 20 billion or 30 billion a year in direct delivery of subsidies. Yes, sir.

<Q>: I have two questions. First one, if you have any [indiscernible]?

<A – Harold Montgomery>: It's very low. It used to be about 3%, 4% two years ago, but it's very low now. So keep in mind, we are talking about SMS, text failure rate because that's why we use this SMS. It down below 1% now, which is still higher than western world, but nevertheless come down significantly. Yes sir.

<Q>: What's your burn rate? What do you expect it to be?

<A – Harold Montgomery>: India burns about $300,000 a month, which is narrowing as they grow in scale, right. In the U.S., we have a slight burn about $50 to $100 a month, but in the next couple of months, we are making some cash flow acquisitions that will erase that. I expect it by 2015, we're firmly EBITDA positive in the U.S.

<Q>: [Question Inaudible]

<A – Harold Montgomery>: By the end of this year in the U.S.

<Q>: [Question Inaudible]

<A – Harold Montgomery>: India, probably 2015. Mid to third quarter 2015 is when I think they should be breaking even. It's a bit of a moving target though, I'm going to say.

<Q>: [Question Inaudible]

<A – Harold Montgomery>: I think casual aggregation in the U.S. could, on a blended basis, overtake the burn in India within a year certainly, right. So when you smash it altogether and add the two parts together, you could see positive EBITDA overall out of the corporation. Does that make sense?

<Q>: Yeah, but –

<A – Harold Montgomery>: Got big positive in the U.S., small negative in India. You add them together, it should be positive.

<Q>: Yeah. And that would be mid-next year?

<A – Harold Montgomery>: Yes, roughly. That's the goal anyway. How am I doing counselor?

<A>: Great.

<A – Harold Montgomery>: Okay. My lawyer.

<Q>: Are you planning expansion into any other countries?

<A – Harold Montgomery>: No, not at this time. We are highly focused on India. It's the crown jewel of mobile money. We could get into conversation about other markets, we are aware of them, we are watching them, we are talking to them, but I don't want to go to Nigeria in a business context. Anybody? How are we doing? Yes, sir.

<Q>: Back to cash flow, how is the India was funded?

<A – Harold Montgomery>: We raise equity here and send it to India.

<Q>: So you just send the money?

<A – Harold Montgomery>: Yeah, right. We took a piecemeal approach to funding India just to kind of feel our way through. So we funded them $1.2 million a quarter for the last two years to get the growth result that you see. But we wanted to kind of put money and see what happens and so on. But now we are in a majority ownership position, the relationship with the team is very good, the results have been good. We feel confident about it.

<Q>: And as you fund it, you get an increased equity?

<A – Harold Montgomery>: Correct. Yes, we've been incrementally buying equity up to – right now, we are at 70%. We have the right to go to 74%. And so we will be doing that here in the fourth quarter.

<Q>: Long-term, do you get the benefit of the net operating losses in India?

<A – Harold Montgomery>: Yeah, if they transfer over. I'm not an accountant, but yes, they transfer over, once we went into majority status there, which didn't happen till 2014. Okay? Thank you all so much. I appreciate it. Happy to stay behind.