

Company Name: Calpian Inc. (CLPI)
Event: LD Micro VII: The Main Event Conference
Date: December 4, 2014

<<Analyst>>

Good morning. Welcome to Track Three, our 8 AM presentation with Calpian CEO, Mr. Harold Montgomery. Harold?

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

Good morning, and thanks for coming today. I want to talk to you about our company, Calpian. The ticker symbol is CLPI. We're a payments company with two footprints. We have footprint in the United States in traditional payment processing for small retail stores, credit and debit processing.

Principally we do some ACH as well. Some vertical markets like healthcare and others are big opportunities for us in the U.S. side. That's a pretty mature business. It runs about \$28 million in top line revenue. Cash flow is \$1 million to \$1.5 million on a run rate basis and there are very attractive acquisition opportunities in that space.

So what we do is acquire customers from other dealers. It can amount to just acquiring cash flows. We've historically paid two to three times cash flow for those. We bring them over. They're highly accretive. So it's a rollup play in the United States.

I've been 25 years in the payment space. And we identified three years ago one of the fastest growing opportunities in payments worldwide and that's a company called Money-On-Mobile in India that does cell phone payments for the unbanked and that's principally what I'm going to talk to you about today, because it's mainly the driver of our growth story.

As I mentioned, our whole team, myself included, have been many, many years in the payments business. I started my career thereafter I got my MBA at Stanford. My partner, Craig Jessen has been with me most of that time. Our CFO, Scott Arey, has a lot of public company experience. He's also a Stanford guy. Shashank who founded and runs the Indian business has been 10 years in payments. And Tom Tesmer, our COO in Atlanta has 30 years in payments.

So, as I mentioned, the U.S. side is a steady cash flow kind of business. It's a mature business. It doesn't grow organically at very high rates. It grows about 10% a year, but it is a rollup play at very attractive multiples. But the explosive growth opportunity that we're now majority owners of is really in India.

If you are familiar with the developing world, you know that mobile payments worldwide in various different countries have really taken off. And we are the lead player in the

largest mobile money system in India today by a factor of 10. I'll talk to you more about that as we go forward.

Very simply stated, what does Money-on-Mobile do? It allows people to make simple financial transaction using their cell phone. Keep in mind, this is an unbanked environment. People need a way to communicate and move their money around efficiently, digitally and that's what we do.

We own 72% of it today. We began acquiring stakes in the company by investing cash. We're up to \$17 million invested to grow the company. The Indian team also have shares in Calpian. So we're all aligned towards shareholder value creation here in the United States.

We have the rights to go up to 74%, which we will probably do by year end. And then the Company should be growing very nicely. It grew 30% per quarter for the last two quarters in a row and we believe that the growth rate can extend.

So with respect to our stock, it's really the best of both worlds. You have a steady cash flow opportunity with very accretive acquisitions on the U.S. side, and you have an explosive organic growth opportunity that's going to drive a lot of interest in the stock on the Indian side as India becomes more and more part of the consciousness of U.S. investors, the way China did 25 years ago.

So I'm going to go into a deep dive on the Indian side now and leave the U.S. side for later. We allow consumers to pay using the mobile phone. We convert paper currency into digital format for them. We sell it through retail locations. We have over 200,000 points of presence where consumers can exchange cash, deposit with us, create an account, which is very easy to do. Then it becomes digitized in our systems. Then they communicate with us using the cell phone and tell us where to put the money. It functionally replaces the debit or the checkbook.

As a practical matter, you can think of us as the bank in a functional sense. We're not licensed as a bank at this time. We are a transaction system, but functionally for your understanding, we act like the bank. And we are also very well positioned to capture the coming wave of e-commerce growth in India, just like Alipay did in China.

Accel Partners, for example, estimates that third-party wallets, which is what we do and we're the leader in that space, will grow to \$500 million to \$800 million of processing volume per year in only three years from now. And I'll talk to you about how that will happen.

For those who are not familiar with India, it's got a very large and growing population. The middle class is very aspirational and growing very rapidly. The economy is growing nicely. The recent elections indicate an economic opening. You may have watched the Mumbai Stock Market. It's done very well lately. A lot of people are beginning to turn to India.

There's almost every day an article in the Wall Street Journal about India, the up-and-coming thing. The journal highlighted it back in May during the election calling it the Reagan-Volcker Moment, India is rising. We were featured in the New York Times a year ago in the business section about mobile money gaining traction on India's poor. This is principally about our company.

In addition to that, e-commerce is coming in India. Amazon is there. They're moving toward the store, order and delivery model similar to our old Sears catalogue store, where you would go to the store or to the item. They ship it to the store and you pay for it there. That's what's evolving in India. Remember I said 60% of e-commerce in India today is done by COD, literally cash on delivery.

What's going to change now with the advent of a digital payment mechanism is people will go to the local neighborhood store. They'll sum through a tab or a computer. They'll order the item they want. The consumer will pay paper currency. The store will buy the item using a digital payment system like ours. The item will be shipped to the store and the consumer will come back and take it up.

It's very hard to find addresses in India. The stores are much more reliable. The distribution networks exist. That's the way this is evolving, but a digital payment mechanism is the next frontier in e-commerce.

You may have read about Flipkart, you may have read about Naaptol, some of the valuations of these companies, Amazon.in. But the missing piece of the puzzle, as they found in China as well, is the digital payment system to make it all work properly. Alipay is upcoming as a U.S. IPO. Some people estimate it could be as high as \$100 billion. We are tying into the e-commerce vendors. We are positioning ourselves to functionally do what Alipay does in India.

Let's talk about the background in India. The challenges are there ó not many people have a bank account. There's only 200 million bank accounts serving a population of 1.2 billion. That means there's no payment mechanism. Everybody is walking around with a lot of cash all the time.

And because they don't have a good transportation system, you've got to literally walk everywhere. And if you got to go across town, you've got to buy a bus ticket, you've got to wait in line to pay a utility bill. It's a real point of pain for the average consumer. Yet you have 900 plus million cell phones in the country and over 1.1 billion SIM cards.

So what do we do? We aggregate the typical payment options that people want to see. All those phones I told you about are prepaid. So you've got to constantly be doing what's called topping up with those phones. Television likewise is prepaid. It is satellite TV, prepaid and metered at you set and when your prepayment runs out, your TV goes dark. I'll show you how that works in a minute.

We do utility bill payment, which is a real point of paying. We just add a travel ticketing. As I said, we're moving into e-commerce now. We're also moving into domestic remittance. We aggregate all of those uses. We resell them through 225,000 retail locations where the consumers can interact. And in the last two years we have had 112 million Indian consumers use the system at least one time. And that shows the reach of the system. That's very nearly 10% of the entire population.

Each of our stores makes a commission on every sale. We buy in bulk at a discount. We resell to the stores. They resell at retail in a classic distribution model. And the benefit for the consumer is we save time and money getting things done. This is a typical cell phone in India. It's not a smartphone environment. It's a feature phone environment. This is a typical utility bill payment center aligned at the end of month when the bills are backup. People need to pay their bill.

This wait in Chandigarh was over two hours to pay a utility bill. Here's what it looks like in Coimbatore in the south. You can see it's pretty chaotic. This is Delhi. For a utility bill payment center, this is a real point of paying. These people walk there or took the bus, then they waited in line, then they paid cash and then had to go home again.

On the other hand, this is one of our stores. This is in Hyderabad. You can see our yellow dangles on the ceiling there. That's our POP advertising. That lady down to you left in the pink, came in. She bought a single diaper and she topped up her cell phone. Why did she buy a single diaper? Because she doesn't want to spend anymore cash than she has to right at that moment. She lives upstairs. If she needs another diaper, she'll come back. That's the typical retail purchase in India.

Our average transaction is about \$1.35 or about 75 rupees. The average mobile top-up transaction is about \$1. We do 15 million transactions a month right now. This is one of our typical stores. You can see it selling what are known as fast moving consumer goods. It's a lot of micro purchases in India. That's just the landscape. You've got to have a very low cost frictionless way for people to conduct everyday commerce in the country. It's not a land of big purchases by and large.

And just how the cash flow works. We are connecting automatically in an automated way, 15 different cell phone companies. I'm just going to go with the cell phone example. But you could put in utilities, you could put in TV, six TV vendors, you could put in domestic remittance, you could put in e-commerce into that box, but let's just trace it for cell phone purposes. So we're connecting 15 different cell phones companies to 112 plus million users right now through 225,000 retailers who access commission sales people for our service.

The first step is that the retailers join the network by a paying cash deposit. Everything in India is prepaid. The phones are prepaid, the TV is prepaid, we are prepaid. We have to then prepay with the cell phone providers. So we buy from them in bulk and we get a 4% discount for that and that's the basis of our revenue stream. We're buying low. We're going to resell higher. When the consumer shows up in the lower right hand corner of this

diagram, he then says, I want to top-up my cell phone. We sell it to the retailer at a 3.5% discount. He sells it to the consumer at retail that completes the whole cycle.

This is exactly like we are selling shampoo, buying from the manufacturer in bulk, breaking it into smaller pieces, selling into retailer at a markup. It's a classic distribution model. Everybody gets a little bit along the way and we keep now about 1%. Our margin has grown from 0.5% to almost 1% now. We expect it to go larger as we move into more lucrative higher value product.

Remember, I said a top-up is only \$1, but an e-commerce transaction could be \$10 to \$30. A domestic remittance transaction is \$60. A utility bill payment is higher. We don't make 1% on utility, but we do on the other products. We make 1% to 2% as system matures, as people get experience with it, as they move through the product curve, the size of the transaction goes up, the margin goes up and the frequency goes up and those are key drivers for revenue.

I'm going to try to play you a video here of this guy doing a transaction. Here we go.

[Video Presentation]

Pramod is about to get his cell phone topped up here. The guy in the white cap is our dealer. He has a prepaid deposit with us. Notice, when we tell him we want to do a top-up transaction, he reaches for his cell phone. There's no computer, there is no Internet connect. This is all driven by SMS text. It's very, very low barrier to usage and adoption.

There's no CapEx involved and getting involved other than the deposit for the retailer or the consumer. So he validates the number, which Pramod gives now. He asked me how much do you want to put in. I told him 100 rupees. And he has pushed the send button and the transaction has already happened. It's already complete. In a moment Pramod will get a buzz on his phone. He will pull it out. He will show the rupees here. Sorry this is so loud. So there is Pramod checking his phone and in a second here [indiscernible] (12:55).

Now that could have been a VTX transaction, it could have been a utility bill payment, it could have been anyone of those transactions or it could have been all of those transactions at once. Okay. So there is the receipt. You can read it. It says balance dash Rs., rupees 465.56, validity March 31, 2015. Vjcvou" what they get back. So this transaction builds trust, it build confidence. The consumer doesn't leave until he knows that his account has actually been topped up. For many of our customers this is our first in electronic transaction. Vjg{øtg" used to dealing in cash. Vjg{øtg" not used to this mysterious network that exists out there somewhere. Yes, sir.

Q&A

<Q>: [Question Inaudible]

<A ó Harold Montgomery>: Paid 100 rupees and he got 100 rupees added to his cell phone account. Exactly right. Let me show you another one. The next step here is for the consumer to preload a balance themselves, say 1,000 rupees and go home and transact with us himself. In fact, vjcvøu" exactly what happened when we left that store. Pramod looked at me and said, hey, this works great, what else can I do, right. How else can I simply my life.

Everywhere I travel in India, Iøve been in India 14 times in last three years for weeks on. And everywhere Iøxg traveled, everybody have said, I really need to have this in my hands, I canøt get done what I need to get done. Here is an example of what happens on Saturday night when your TV subscription has run out. This is an advertisement we created for the kpvgtpgvø" Vjcvøu" what the [indiscernible] (14:32) you get, and this young lady is trying to have a hard day and the TV is not going to work. So the boyfriend shows up. And we all know whatø s on his mind. And she is not having it.

[Advertisement]

So itø s on a smartphone app as well. We have it in 10 different languages. This gentleman has loaded a balanceø" J gøu going to spend some of it, filling up her TV account.

[Advertisement]

And everybody is happy.

[Advertisement]

Okay. So there you go. So he had a preloaded balance. You can add to anyoneø s TV account, you can add to anyoneø u cell phone account. So if you have multiple SIM cards in your family, which most people do, you can fill up all the brands, if you have multiple TV accounts. You live in Mumbai, your parents live in Delhi, you can fill up their TV account. Anywhere in the country, any brand, doesnø t make any difference. You can do it all from one load. You donø t need to send money and let them bill pay. You can bill pay from home. You can also send them money through this system.

This is a store adoption curveø" Y gøxg" gone to 225,000 locations. The cumulative ó at least one interaction user account now, 112 million in a 30-day period, 8.4 million in October use the system, process volume, 1.25 billion twrgguø" Vjcvøu" about \$20 million. That may not sound like a lot, but itø s 15.8 million transactions in the month of October.

That from a payments perspective is really the important number. This is the most important number on the graph in my opinion, because it shows the frequency of use, which is here the average spend per customer has gone from 100 rupees to 149 rupees, was as high as 200 rupees. This is average transactions per month per user, now 1.88 rupees across a base of 8.4 million.

If you dig a little bit, you find out that the 80/20 rule applies and out of that 8 million, 80% of the transactions are probably being driven by about 2 million to 3 million people. So we're developing that core constituency and the product on a highly frequent basis and frequency is the most important variable in a system like this, because as you add new product they will adopt and the size of the transaction gets bigger and the margin gets bigger and that's how you're going to develop the system as we go forward. I'll show you some examples of that in a moment.

Competitively, we're way ahead of the pack. Beam in Delhi is our nearest rival and we are 10 times bigger than they are. Airtel has launched a product that does Airtel Money top-up or Airtel time top-up only, not the other 14 brands and you can only send money to another Airtel subscriber. So, very narrow product definition. Same with Vodafone.

Importantly, we have the first mover advantage. We were the best finance, the biggest product suite and we're moving aggressively to conquer the territory. And you should know, we have no major regulatory hurdles remaining for Money-On-Mobile, either our investment as a foreign entity there or our licensing with the Reserve Bank of India.

We are adding product all the time. We already do the top three, which are cell top-up, TV and utility payment. We are adding travel ticketing now. We just added train and we're adding e-commerce as we go forward. The goal in three to five years is to have 35 million core users using it and spending \$34 a month each, about \$1 billion in processing. That's a little bit of a magic number.

As you can see from the experience that been faced in Kenya, which is now eight years old, has 30-day active user accountable 11 million processing, about \$1 billion a month. About \$100 per person per month of spend. We're at \$2 per person per month of spend. We've got a long way to go, a lot of transactions left to add into the system to be a rival to M-Pesa, but this where you can go with this in eight years.

And importantly, India is 30 times bigger than Kenya in terms of scope and opportunity and we are the leader in that market. Here is a public market copy to look at called QIWI on the NASDAQ. It is a Russian version of what we do, again eight years old, notice about four bars in the bottom, annual process volume 15 billion. Again, we're at 250 million. So they are quite a bit bigger than we are.

Gross revenues of that \$356 million, very profitable business, growing 12% a year. We're growing over 100% a year annualized right now. They have a market cap of \$1.5 billion. Before the Ukraine, it was about \$2 billion to \$2.5 billion and then Ukraine kind of messed it up for them. But this is a great company. This is who you want to be when you grow up. We are again in a market that is substantially larger than Russia. We're in the largest market in the world after China.

So, just to cover the highlights for you, again, very experienced management team both here in the U.S. and in India. A strong growth opportunity with our roll up opportunity in America that generates cash flow and explosive growth in India with 30% quarter-to-

quarter growth for two quarters in a row in a giant light up and market opportunity and a greenfield opportunity to invest in mobile money with the leader in the space.

So that concludes my presentation. I'll go to Q&A now. I want to make sure everybody had the chance to get one of our binders as well. If you're late coming we'll get you one. Did you have a question, sir? Sir, your hand ó go up.

<Q>: [indiscernible]

<A ó Jctqnf"Oqpv iq ogt{"@<"Vjcvøu"what it is. It's a pre-paid debit card functionally. But just remember that youøxg" iqv"vq"take the plastic card qww." {qwøxg" got to take the bank account out, but other than that it's a pre-paid debit card. Yes, sir.

<Q>: [indiscernible]

<A ó Harold Montgomery>: Smartphone adverts in India, the advent of the smartphone will be very good for us, because it makes it easier to operate. Right now you're using a feature phone and to do an Airtel top-up, for example, you got to enter AIR for Airtel space the phone number star and the amount. Vjcvøu"the protocol to communicate with our computer systems.

It would be much easier to have a drop down menu, pick Airtel, the amount, the phone number and off you go. So we have it on smartphone and we're populating that and we also doing it on the Internet as well. But the vast majority of the population is, as you probably know, don't have smartphones. Smartphones are projected to grow 500% in the next three or four years in terms of market share, but that still leaves them in the 15% of the market range. So it's just something that we really love to have happened. And as smartphone prices drop, the penetration will increase even more I think. We would love smartphones to be there.

Apple Pay is not relevant in India at all for two reasons. One is, again, the bank account problem, the credit card problem. There are only 18 million credit cards in India total and it's been declining for a number of years. And the last item of course is that the point-of-sale are not wired up the way they are here. You don't have the connectivity, you don't have the terminals. The merchants ctgpøv"going to buy the terminals. The average Indian isn't really going to be exposed to things like Apple Pay. So that's really literally two different universes in terms of payment language about what's going on here and what's going on there.

Clearly, in the developing world the phone is the payment mechanism period and it's all prepaid. I mean you look at Kenya, Somalia, has a thriving prepaid phone system believe it or not. Ghana does, Tanzania. Kenya, I mentioned. South Africa, Pakistan, Bangladesh. If you want to see a really great example, bKash in Bangladesh is a terrific thing that's really done very, very well. But again, it's about that ultra poor environment where this thing is really essential.

I'm constantly hearing from westerners who visit India that they're shocked that everyone is walking over the cell phone, but I think they don't really remember how vital a cell phone is to daily life, finding job, communicating with people, knowing where to be and when, all that sort of stuff. Whether you add a payment mechanism to something that's already that vital, it becomes even more vital than what you already have. The user benefit is gigantic, really gigantic. Yeah. In the back.

<A ó Harold Montgomery>: Right.

<Q>: [Question Inaudible]

<A ó Harold Montgomery>: Well, more and more ó the benefits of a digital payment are becoming clear, but I showed you those utility bill payment centers a couple of slides back. And these lines are not uncommon, Prashanth, as you probably know. I mean, I've seen them personally here in Hyderabad and other places, this kind of thing. And you go, talk to people and they'll tell you half an hour or minimum and more or like two or three if you wait till the end of the month, which a lot of people do because they don't want to spend the cash until they have to.

And you got to get on the bus, you got to go there, you got to wait in line. If the door closes when you get there, you're out of luck. So this is a huge point of paying"kvøu"this way for gas, ivøu"this way for electricity, kvøu"vjku"way for any utility. So, to answer your question, the benefits for the vendor, the utility company of a digital payment mechanism are huge, because we take the burden off them and we distributed out to thousands of small locations where people can go and interact quickly.

Kvøu"much more efficient"Vjgtgøu"no cash changing hand. The cost of handling cash is substantial. You have theft, you have loss, you have to make change, you have breakage [indiscernible] (24:42) to get damaged. I mean cash is kind of a nightmare in this sort of scenario and we take that off the table and automate everything for them and it works really well.

So we're not having a problem on the vendor side. One of our biggest challenges though is integrating with them from a technical point of view, and making sure that everything works right before we release the product to the general audience. It's got to be pretty robust, because the volumes that we do are huge. 15 million transactions a month is a lot. Yes, sir.

<Q>: [Question Inaudible]

<A ó Harold Montgomery>: We expect that India will be breaking even by the middle to third quarter of 2015. It doesn't lose much. It losses \$300,000 to \$400,000 a month right now"Y gøtg" ocppkpi"to raise money in 2015, but we have not committed to that. So far our capital plans are adequate for what we need to do. But we may need to raise money in 2015.

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

I think my time is running out. So if there's no more questions, I'll be around here at the show today. And look forward to talking with any of you one-on-one if you like that.