Manole Capital Management

4th Annual Gen Z Survey: Payments
August 2021

MANOLE CAPITAL MANAGEMENT

Introduction:

Manole Capital Management is a boutique asset manager based in Tampa, FL that exclusively concentrates on the emerging FINTECH industry. Manole Capital defines FINTECH as ***"anything utilizing technology to improve an established process."***

For the last three years, Manole Capital has asked its interns to conduct research on the Gen-Z demographic, in four key financial services. Research has inquired about Gen-Z's perspective on digital currencies, brokerage, banking, and the payments industry. This prior research can be viewed by clicking here or visiting www.manolecapital.com/research.

In 2021, three interns from the University of Tampa (Go Spartans!) have conducted Manole Capital's 4th Annual Financial Services Survey. Andrew Yang garnered significant name recognition during his presidential bid, as well as during his failed New York City mayoral candidacy. A few months ago, Yang said he was "depressed" after a Goldman Sachs executive told him that it was opening a branch office in Tampa. In a Bloomberg News interview, Yang said "it's a depressing story" that NYC is seeing businesses and talented workers move elsewhere, especially if "we're losing people to Tampa".

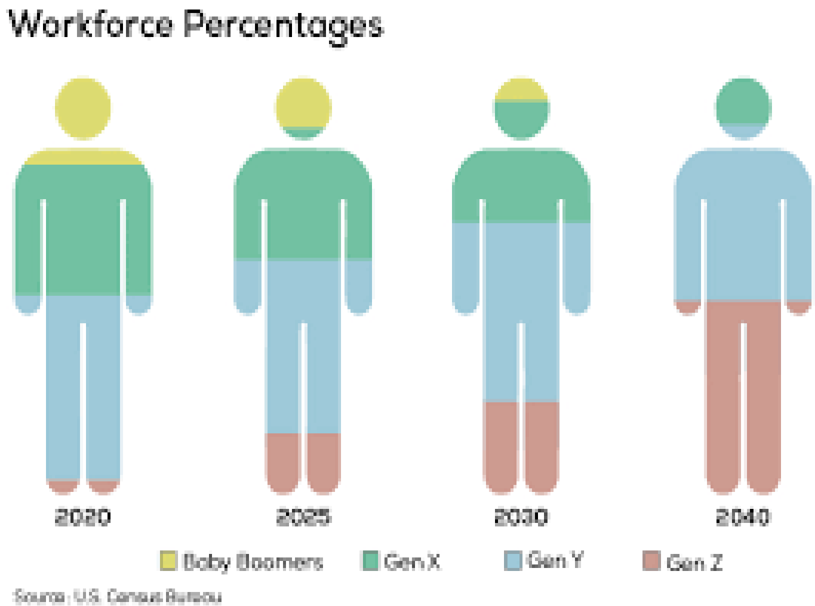
We received insights from over **350** participants, with 91.1% under the age of 25. 37% of our responses were female and our surveyed population came from 51 different colleges and universities. This has been the largest financial services survey ever conducted by Manole Capital, as well as the most international, with respondents coming from 13 different countries.

Our goal was to better understand the Gen-Z financial services perspective, as well as provide opinions on current trends. We changed some of our questions to address the global pandemic and how COVID-19 might impact the financial services sector. We seek to identify the latest trends and changes regarding our four financial services topics.

Our research targeted towards Gen-Z to get a glimpse into what the future of FINTECH may hold. Gen-Z represents the future of our workforce and this their views and opinions will have a meaningful impact on our economy for decades to come. After each section of Q&A, we plan on providing our opinion and some specific takeaways.

By the Numbers:

- The Silent Generation was born before 1945 and are between 76 and 93 years old
- Baby Boomers were born from 1946 to 1964 and are between the ages of 57 and 77 years old
- Gen-X'ers were born between 1965 to 1980 and are now between 41 and 56 years old
- Millennials were born between 1981 to 1996 are between 25 and 40 years old
- Last but not least, the Gen-Z cohort was born after 1996 and are all under 25 years old



For the last decade or two, Baby Boomers have dominated our economy. More recently, Millennials have overtaken Baby Boomers in the US work force. According to the US Census Bureau chart shows, Gen-Z will be ½ of the workforce by 2040. Over the next decade, Gen-Z will take over our economy.

Here we briefly describe the characteristics of each generation to get an understanding of how their underlying traits could have shaped the way financial services have been conducted up until now.

Having childhoods that pre-date modern technology, Baby Boomers value personal relationships and have strong interpersonal skills. With the invention of cell phones and computers, Baby Boomers were forced to adapt and learn new technology quickly. Some have, but some are hesitant to acclimate to the driving force of today's social society. Baby Boomers are often characterized as optimistic, idealistic, self-driven and have shown a tendency to be loyal. For example, studies show that Baby Boomers spend an average of 15 years at their bank or brokerage. After years of climbing the corporate ladder, many are now exiting the workforce and enjoying retirement and sharing time with their family.

Gen X is sometimes referred to as the "lost generation". Some had two workaholic parents and others were raised by single or divorced parents. Because of this, Gen X tends to place more emphasis on a balanced work / life co-existence. Often, Gen X'ers have more individualistic ideals and are often self-sufficient, skeptical, and resourceful.

Having been the first generation to master modern technology, Millennials are successful and driven. However, some have become too dependent on technology and interpersonal skills have suffered. As opposed to being raised by authoritative Baby Boomers, Millennials have been raised by Gen-X'ers that sometimes view parenthood as a partnership. Accordingly, Millennials were given leeway and leniency, paving the way for some to display a degree of selfishness and the desire to have everything, without much in return.

Gen-Z:

Other than having been born with technology in our hands, not much is known about Gen-Z. With a maximum age of only 25 years old, Gen-Z is just now entering the workforce.

Many generations are influenced by the major events of their lifetime. With the oldest Gen-Z at age 25, most are too young to remember the September 11th terrorist attacks or understand the ramifications of the Financial Crisis.

Gen-Z is described as ethnically diverse, socially aware, environmentally responsible, eager to stand out and technologically savvy. Everybody knows we appreciate a good selfie or food pic, right?

We believe the COVID-19 global pandemic is the most influential event Gen-Z has faced and it will have lasting ramifications on our lives. In our research, we try to identify the direction and thinking of the Gen-Z generation and the future of cryptocurrency, banking, brokerages, and payments.

Questions:

Before COVID-19, cash was still the dominant form of payment around the world (estimated at 75% to 80% of retail purchase transactions). Will one of the pandemics lessons be "The Death of Cash"? Click here for Manole Capital's recent presentation on this trending subject. Following the Financial Crisis, some banks were blamed and considered villains for the financial fallout. Most banks are slow learners and are not considered technology savvy. Can financial institutions learn to adapt? Why is there a bank branch located on every street corner when we effortlessly use online banking services?

Online shopping and eCommerce sales have been stealing market share from brick-and-mortar retailers for years. PayPal's CEO Dan Shulman recently stated that the pandemic might have pulled forward eCommerce adoption "by a decade." Has the pandemic created new trends and altered the outlook for the future? Will developing technologies like contactless payments and NFC technology soon become mainstream? Can physical-only retailers survive? In late January, meme stocks like GameStop and AMC dominated Wall Street, as well as the headlines in the Wall Street Journal. Will emerging brokerages like Robinhood steal market share from more established incumbents? Bitcoin soared in 2017, only to collapse in 2018. Last year, Bitcoin rose over 300% and it is continuing to climb in 2021. What does Gen-Z think of digital currencies, and would they like to use them for payments?

These are just a few questions of what we intend to discuss. Do you have a question or two that you would have liked us to ask? Please let us know how we can improve future surveys and research. In assessing the results of the survey, conclusions will be drawn on the future of the FINTECH industry. As Gen-Z becomes of age, their preferences will dominate the world stage. Manole Capital believes it is beneficial to evaluate Gen-Z's preferences, to better understand future financial services trends. Do you agree or disagree with our opinions? Please let us know your thoughts and we look forward to hearing your feedback.

Please click here, for a link to our ***"What Gen-Z Thinks About the Brokerage Industry"*** note.

Introduction on Payments:

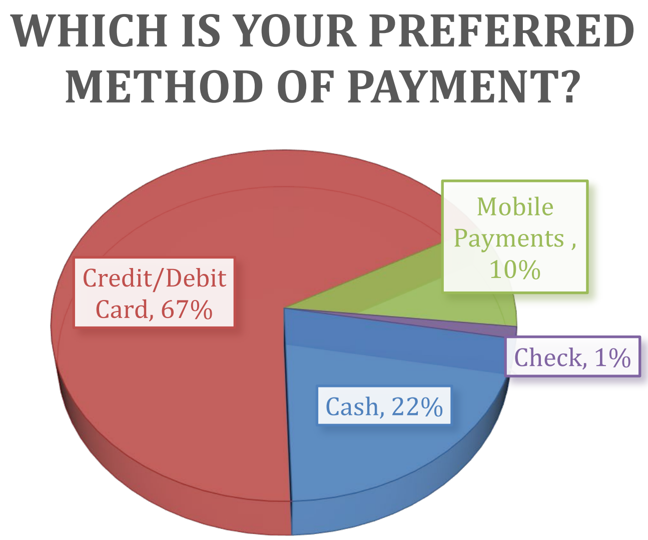
Just a few short years ago, it was nearly impossible to consider a society without cash and paper currency. Today, it is becoming increasingly rare that cash is used at all. We have entered a mobile-based society and a world of contactless payments.

Historically, the payments industry is not terribly revolutionary. The speed of change is often glacial and evolutionary. With the global pandemic, the payments industry has materially changed and advanced the speed of adoption of various new payment technologies. What typically could have taken years and decades to become implemented, has been embraced in record time. We believe that once these advances in payments become widely incorporated into our daily lives, society will not be returning to traditional paper money and coin transactions again.

This is the 4th Gen-Z survey on payments that Manole Capital's interns have conducted. In this note, we discuss different forms and usages of payments, attitudes toward mobile payment capabilities, and potential timelines for the possible extinction of traditional payment methods. Compared to last year's results, which were recorded pre-COVID-19, this year's results were collected as we near the end of the pandemic. Over the several pages, we will report and discuss the emerging trends Gen-Z is experiencing in the payment space.

Question #1:

We wanted to start our payments survey with a follow-up question from last year. Throughout our analysis, whenever we ask a repeat question, we will try to inform you of any material changes versus prior years.



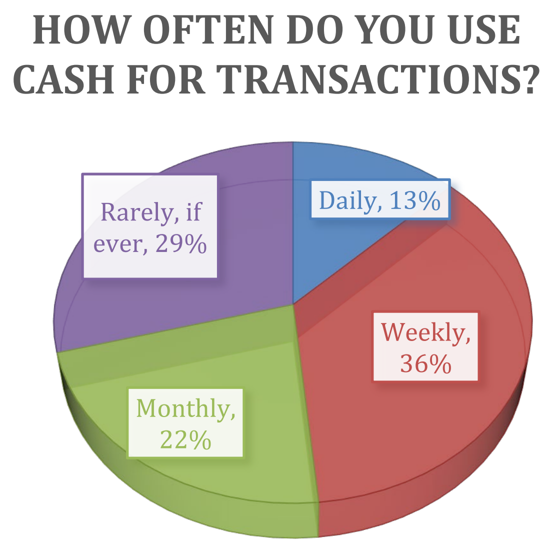
We simply asked our Gen-Z participants what their preferred method of payment is. As you can see in our pie chart, the most preferred method of payment (at 2/3rd's) remains debit and credit cards. This remains the most prominent form of payment, but it has fallen versus last year's 78%.

It is interesting to point out that only 10% of participants prefer to use mobile payments, such as Venmo, Cash App, and PayPal. While these applications are geared towards Gen-Z, it is unusual that this method of payment declined versus last year (12% last year). While Gen-Z loves to make peer-to-peer or person-to-person (called P2P) payments using our phones, mobile-based payments are still not commonplace. In many brick & mortar retail stores, it is still not possible to use Venmo or Cash App to pay for goods and services. This is changing, but debit and credit cards are still the most convenient way to pay.

Over 1/5th of our survey or 22% preferred method of payment is cash. This was very surprising to us, as cash represented only 10% in last year's survey. While it might be tempting to come up with an outlandish prediction and say that cash is making a comeback, but we are certainly not going to do that. One reason that might have skewed this year's survey and this question in particular, was the fact that our respondent pool was a little younger than prior years. Many high school students took part in our survey this year and it is quite possible that our respondents are still using cash simply because they do not have a credit card or receive cash to use from their parents. In fact, 34% of this year's survey group were still in high school, when we asked our questions. We believe cash at 22% is a bit of an outlier, and we are not ready to state that cash usage in on the rise.

According to CNBC, 50% of Gen Z have at least one credit card and are more credit active than millennials. 41% of Gen-Z favors credit cards over student loans and 44% of millennials favor student loans over credit cards. Even though many people believe the younger generation carries more credit risk, they are more educated about their credit compared to previous generations, which users can benefit from free credit score checks. Among the global population, the United States ranks number one among Gen-Z credit card users (66%) compared to Canada (63%) and Hong Kong (49%). In the United States, Gen-Z has an average of 1.5 credit cards whereas the national average is four.

Question #2:



Physical cash has been around for hundreds of years and has served as our dominant medium of exchange or trade. Keeping with this line of questioning, we then wanted to understand how often Gen-Z is using cash for their transactions. In prior surveys, we attempted to measure payment use (as a percentage). This year, we specifically asked how often cash was used (rarely, daily, weekly or monthly).

The largest choice was weekly, at 36%. This was expected and proven by a recent study conducted by the Federal Reserve Bank of San Francisco. It found that cash is still being used by millions of people on a daily basis and it is most often used for smaller ticket purchases. It found that over 50% of transactions under $10 in size and 42% of purchases less than $25 are done in cash.

Also, cash is the only method of payment for some of our participants. As we will discuss later on, only ½ of our Gen-Z survey even have credit cards and cash just might be their only payment option.

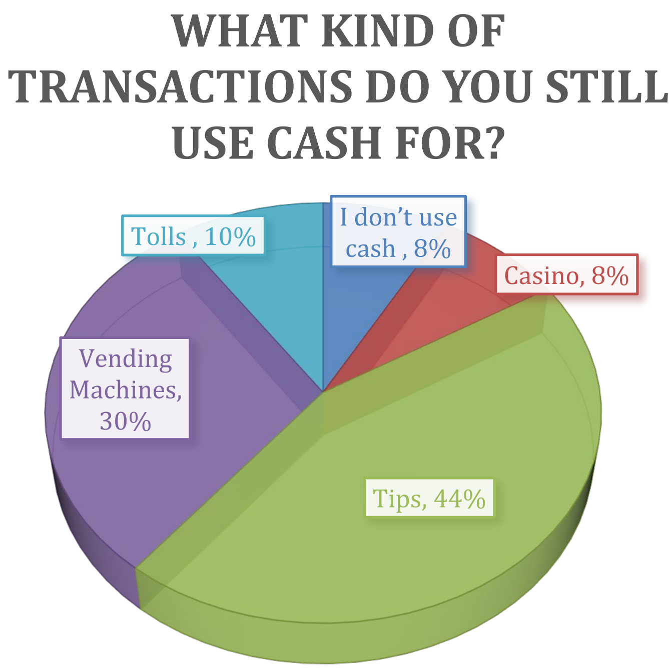
The second highest choice confirms our overall thesis, that cash usage is declining. 29% of our Gen-Z survey rarely, if ever, uses cash for transactions. While some of us occasional use cash, it absolutely is on the decline. If we go back two years ago, we found that 41% of that year's survey rarely used cash. It seems to us, that Gen-Z doesn't want to use cash, but is almost forced to due to lack of mobile-based payment acceptance.

22% of this year's Gen-Z survey claim to use cash on a monthly basis, which supports this these too. Only using cash once-a-month is certainly evidence of that. Lastly, only 13% chose to use cash on a daily basis. According to a Payments Journal study, 8 out of 10 of Gen-Z consumers still use cash, but 53% prefer to use contactless payments in stores. These statistics confirm our results.

If we look at global acceptance, cash is still the dominant purchase transaction medium. Mastercard has conducted studies on this issue and claims that over 75% to 80% of the world's purchase transactions are still done in cash. While this percentage is steadily declining, cash will likely remain a payment mechanism for years to come.

Question #3:

We then asked another new question, attempting to identify what type of transactions cash is utilized for. With this question, we hoped to get a glimpse of why cash is still being used. Perhaps there are certain industries where technology is lagging?



To our surprise, 44% of respondents still use cash for tipping. Why do people prefer to tip in cash, as opposed to a credit or debit card? We believe that this is because of fees and individuals hoping their server receives as much of the tip as possible. Also, there might be some tax implications too. Card transactions are always included in take-home pay calculations, while cash might get "mistakenly overlooked" on some personal IRS filings.

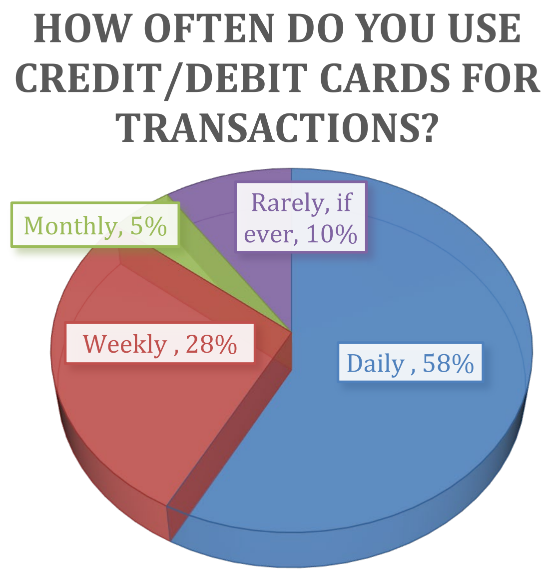
The second most popular choice was vending machines at 30%. While some vending machines accept card payments, many still do not. We expect this future vending machines to incorporate both card-based payments, as well as mobile-based and contactless payment capabilities. Over the next 3 to 5 years, we would expect cash usage at vending machines to materially decline, as older and outdated machines are phased out.

Tolls were the next choice for cash usage at 10%. With the advent of Easy Pass, Sun Pass and other automatic toll systems, we envision this will decline too. 8% of our respondents said they use cash at the casino. This makes some sense, as casino ATM's only dispense cash to gamblers and one cannot put a credit or debit card down on a gaming table.

If we analyze the results from the Federal Reserve Bank of San Francisco, we found that Food and Personal Care products are popular items to purchase with cash. These were the the majority of cash transactions at approximately 16 payments per month and double the number of other miscellaneous items. Maybe cash is still convenient for use at convenience stores (C-stores), CVS and Walgreens? While we have seen POS (point-of-sale) devices at these stores improve and begin to accept mobile-based payments, there is still room for improvement.

Question #4:

Most people tend to have a credit and/or debit card in their wallet or in a pocket behind their phone. We were curious if Gen-Z's usage of credit and debit cards has changed. Specifically, we wanted to understand how often Gen-Z was using their credit and debit cards.



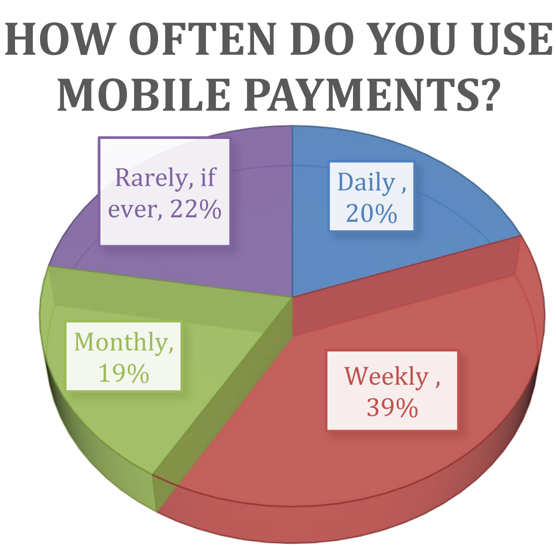
According to our Gen-Z respondents, 58% use credit/debit cards on a daily basis. Another 28% use a credit/debit card on a weekly basis, so over 85% can be considered frequent users. Only 5% use a card on a monthly basis and 10% claim to rarely, if ever, use one.

Clearly, this aligns with our first payment question about Gen-Z's preferred method of payment. The most popular response was to use a debit/credit card to make purchases.

We have noticed from Visa and Mastercard's quarterly results that debit card transactions have been strong. To help control our spending, Gen-Z likes the fiscal responsibility of debit cards and being able to just spend what is in our bank account.

In our opinion, there is a common Gen-Z misconception between credit card and debit cards. Many believe that credit cards are safer than debit cards since money cannot be directly taken from one's bank account. A recent CNBC study found that 69% of Millennials found credit cards to be safer than debit cards. Both types of cards are very safe for payment transactions and we would argue that one is not "safer" than the other. Credit cards may allow for a higher spend and online debit requires a PIN, but both types of cards are very safe.

Question #5:



While it might not be Gen-Z's preferred method payment yet (as seen in Question #1), we know that mobile-based payments are growing in popularity.

We wanted to understand how often Gen-Z is using mobile payment platforms. With the global pandemic and many people look to avoid any type of germs, we were expecting an increase in frequency of use.

Last year, 13% of respondents said they always use mobile payments when available. This year, 39% of our Gen-Z peers claim to use mobile payments on a weekly basis and another 20% use it daily.

We were surprised that 22% stated they rarely, if ever, use mobile-based payments. There might have been some confusion about whether or not a P2P transaction counted towards use of mobile payments or if our respondents felt it only meant for purchase transactions.

In our opinion, COVID-19 accelerated the trend towards mobile-based and contactless payments. We feel that being scared of viruses and germs expedited the inevitable switch from handing over a card to a stranger versus the safety of contactless payments.

According to a recent Payments Journal note, 70% of Gen-Z have made in-app mobile payments over the past year. We know that older generations (yes…we're talking about you Dad), are usually resistant to change. If we had a dollar for every time our dad said, "if it ain't broke, don't fix it!", we'd be rich.

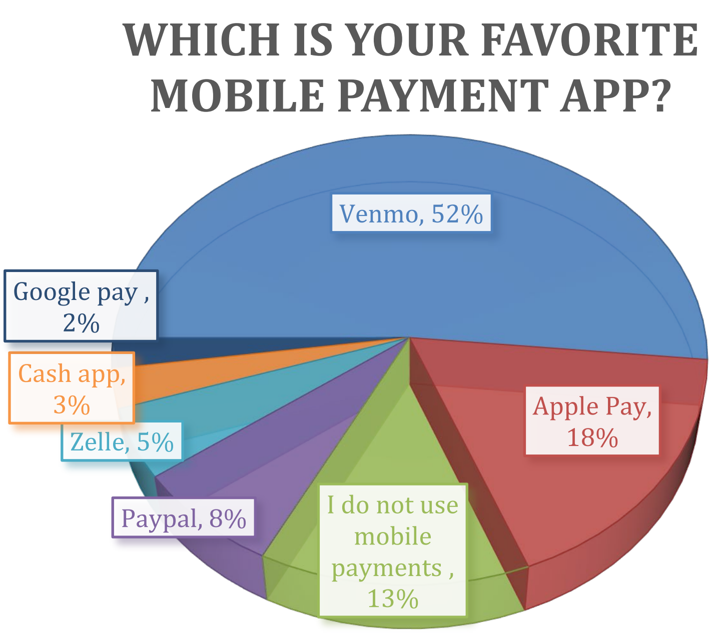
Some consumers do not want to take out their phone and search for the proper payment app, as opposed to simply pulling out a card and either swiping or inserting it. That's one of the benefits of contactless payments, in that it can work on NFC (near field communication) technology. Consumers do not need to find which specific app they need, as most mobile-based wallets will automatically activate when placed within a few inches of a POS device. Then, to approve the transaction, a simple thumbprint or facial recognition can authorize the transaction. This is obviously much safer than having a cashier compare signatures on the back of a plastic card. Plus, we know that nobody is doing that anyhow!

What is preventing mobile-based payments from continuing to expand its market share, in the payment landscape? Well, Accenture conducted a payment study and found that 21% of its respondents were scared to enter their payment card details into their smartphones and that 19% thought paying with their phones could lead to fraud.

Our generation is more comfortable with technology and we tend to trust our smartphones for more-and-more daily activities and transactions. Over time, we expect that Gen-Z will lead higher mobile-based payments adoption.

Question #6:

There are multiple methods, platforms and apps to use for mobile-based payments. Typically, there is a first-mover advantage, where the early product garners the highest market share. Gen-Z tends to gravitate towards one specific app, as long as it handles multiple services (P2P, purchase transactions, trading, crypto, cash management, etc). Also, Gen-Z will be loyal to one specific app if there is an advantage to using it. For example, Starbuck's provides stars for regular usage, which leads to discounts or free beverages.



Our next question wanted to understand which mobile payment app was the favorite of Gen-Z. We slightly modified the question from last year's survey by setting it up as multiple choice, from 6 to 8 of the leading apps. We provided the dominant mobile payment apps and simply asked Gen-Z for their favorite.

Over half of our Gen-Z survey picked Venmo, at 52%. The third highest was PayPal, which owns the Venmo platform. Combining both of PayPal's app's, it is the favorite mobile-based payment app for 60% of Gen-Z. While PayPal is Gen-Z's favorite mobile app today, it is significantly lower than last year (over 90%).

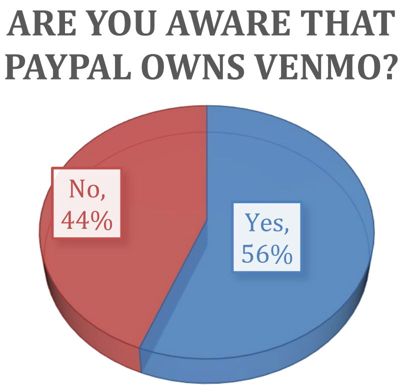
The third ranked mobile-payment platform, at 18%, was Apple Pay. This is not terribly surprising, as Apple remains the dominant technology platform for Gen-Z. We love our iPhones, our Mac computers, our Air pods and iPads too.

Surprisingly, 13% of our survey said they had no preferred or favorite mobile app. Zelle received 5% of the vote this year compared to 3% last year. Also, we were surprised that Square's Cash App received only 3%. Following its massive growth this and last year, we would have thought Cash App and their 30 million active users, would have received more "favorite" votes.

When looking at the overall payment picture in the United States PayPal's app, Venmo, ranked the number one payment app for teens. There was a 47% penetration rate which was backed by PayPal (34%). This is interesting because our second highest option was Apple Pay (18%) and PayPal didn't even make the top three for preferred method of payments.

Question #7 & #8:

One of our favorite questions is asking whether or not Gen-Z knows which companies own certain payment apps. We have asked if Gen-Z knows that PayPal owns Venmo. This year, we also asked if Gen-Z knew that Square owns Cash App.

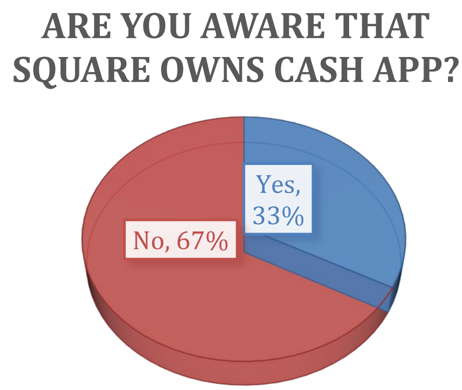


According to our participants, 56% of Gen-Z are aware that PayPal owns Venmo. This is similar to last year's result, but it barely exceeds 50%. We don't have insight into PayPal's thinking, but we assume they enjoy having 2 brands versus just one. We believe that Venmo skews younger and tends to get used for more "free" P2P transactions, while PayPal has become a dominant eCommerce purchasing platform (tied into a credit card or one's bank account).

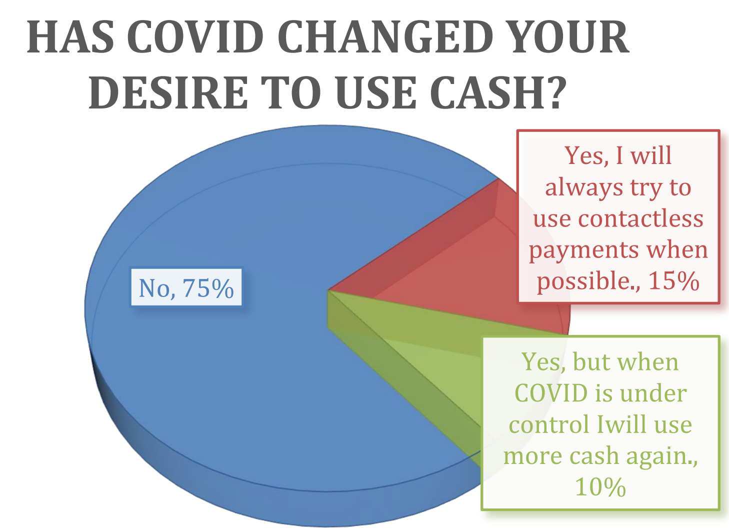
We then wanted to ask if Gen-Z knew that Square owns Cash App. According to the survey results, 67% of participants were <u>not</u> aware that Square owns Cash App.

We are certain that many of our peers do not realize that Zelle is owned by a collection of banks, like Bank of America, Wells Fargo, Capital One, JP Morgan Chase, PNC, US Bank, BB&T and others.

We don't know why Square chose to brand Cash App differently, but it has not impacted their adoption and impressive growth rates. Gen-Z is much more concerned with an app's capabilities and its UI (user interface), than its parent / owner. There is a common Gen-Z perception that traditional banks are stodgy, boring and antiquated, while new banks utilize FINTECH and technology. It is interesting that both PayPal and Square have strong brands, but both have dominant payment apps not using the company's name.



Question #9:



Obviously, COVID-19 shook society last year and dramatically impacted various parts of our economy and everyday lives.

We wanted to understand if COVID-19 had any impact on Gen-Z's desire to use cash. We provided 3 quick multiple-choice options, in this specific question. One was a simple "no", that COVID-19 did not impact cash usage. The other two were "yes", with caveats around contactless payments and a return to cash post-COVID.

We were surprised that 75% of our survey did not believe COVID-19 impacted their desire to use or touch cash. While paper currency is known to carry viruses and tends to be "dirty", Gen-Z does not seem terribly concerned about this issue.

We expected a much higher response than just 15%, when it came to those participants that always try to use contactless payments. According to MasterCard contactless consumer polling, 51% of Americans have now implemented some form of contactless payments, which include the tap option on credit cards and digital wallets. While COVID accelerated the shift towards contactless payments, we thought this would have been much higher.

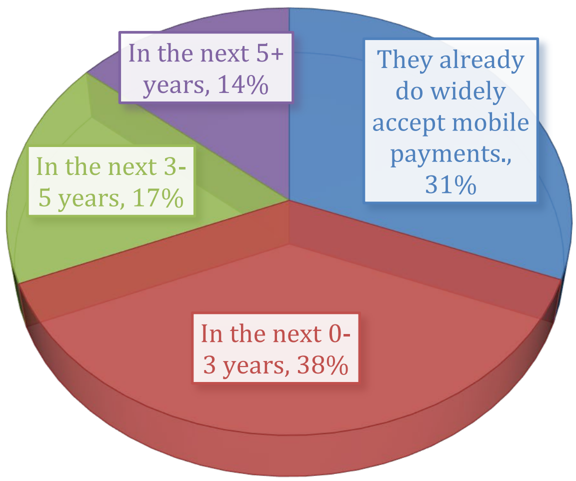
According to 10% of our participants, they will again utilize cash once COVID-19 is better under control. We do not want to get political about COVID-19 or take our research into a conspiracy theory corner of the universe. The results of this question align with the notion that some members of Gen-Z have less worry, when it comes to COVID, than older generations.

Question #10:

Last year, COVID-19 placed a significant strain on all global businesses. Merchants were forced to quickly adapt and conduct business in new ways. Physical retailers needed to learn how to be omni channel, to permit BOPIS (buy online, pick-up in store). Restaurants had to deal with supply chain issues, concentrate on "to go" orders and eventually set-up outdoor dining.

In addition, merchants were obligated to take payment in different form factors. Consumers did not want to hand over their card to a stranger or be forced to use a plastic pen to sign a POS device. Mastercard and Visa were quick to launch contactless payments, where cards could be tapped on a POS device to transact. In addition, other merchants finally worked with their merchant acquirer to turn on NFC technology and permit mobile-based payments. Until COVID-19 struck, many merchants did not feel compelled to transact in these ways.

WHEN WILL MERCHANTS WIDELY ACCEPT MOBILE PAYMENTS?



Our next question asked when merchants will widely begin to accept mobile payments.

31% of our survey said that merchants already do accept mobile payments, but this is simply not true. The technology and capability to handle mobile payments is embedded in the majority of POS devices, but some merchants do not wish to enable it (complexity, cashier training, etc). Too many merchants have still failed to ask their merchant acquirer to turn this capability on inside of their POS device.

38% of our respondents feel that it will occur over the next 3 years, which would be ideal. Another 17% of our respondents believe it will take 3 to 5 years for merchants to widely accept mobile payments and 14% believe it will take over 5 years to occur.

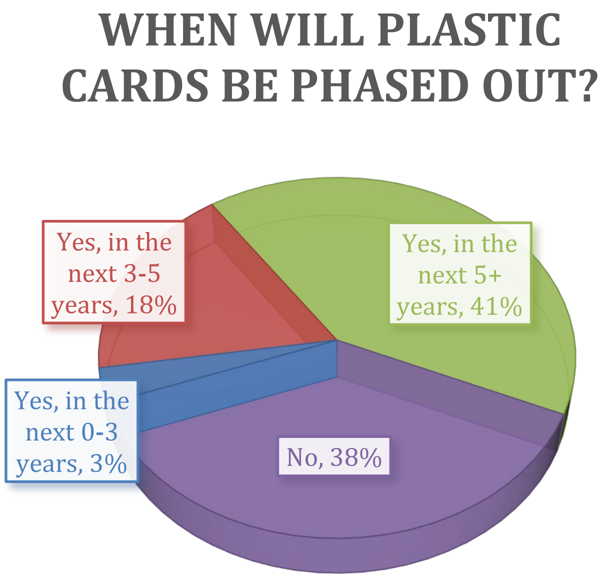
Looking at last year's results, our survey found that 51% of respondents said that merchants will accept mobile payments in less than 5 years. Over this same 5-year timeframe, 86% of this year's survey believe that mobile payments will be widely accepted. We believe that this drastic change in sentiment can be entirely attributed to the COVID-19 pandemic. While mobile payments acceptance has steadily been improving, COVID-19 acted as a catalyst for merchants to adapt. There is not much positive to say about COVID-19, but it did act as a positive catalyst to speed up the transition towards contactless and mobile-based payments.

The consensus is clear, at least to us. Paper cash is on its way out.

Question #11:

As we mentioned in our introduction, the payment world does not embrace change quickly. While we might believe that smartphones are the best way to pay, it has to be embraced by both consumers and merchants. Some people believe card-base payments will be phased out and replaced with safer, mobile-based payments. Credit allows individuals quick access to a line-of-credit, often approving larger ticket transactions in seconds. For example, not everyone can afford to pay for airline tickets or even grocery purchases without this line-of-credit.

Plastic cards are not necessarily advanced technology. The mag stripe on the back of credit and debit cards was developed in the 1950's. The chip embedded in today's cards began implementation in the 1990's in Europe and in the US in 2012.



We decided to tweak this specific question. Instead of asking about the merchant perspective, we shifted our attention to the consumer preference for plastic. We asked when Gen-Z expected plastic cards will be phased out from regular use. Once again, we provided multiple choices, ranging from never to 1 to 3 years, 3 to 5 years and over 5 years.

The leading answer, at 41%, was that it will take over 5 years to phase out plastic cards. 38% of our respondents believe that plastic cards will never be phased out. Very few of our participants expect plastic to be eliminated in the next 3 years, while 18% think it might happen in the 3-to-5-year range.

Manole Capital has written several notes about mobile and contactless payments, which can be viewed here. Manole Capital hopes to rid itself of its bulky leather wallet and believes that consumers will want to their smartphones for payments (linked to a credit or debit card). From the answer above, we should expect to carry plastic cards in a leather wallet for at least another 5 years.

Question #12:

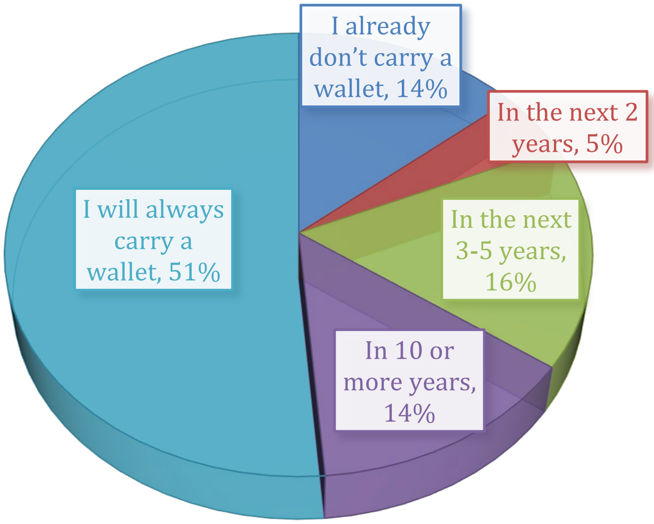
For decades, our wallets have become an indispensable and essential accessory (when leaving the house). Whether it is a driver's license, insurance card, debit or credit card or even cash, our wallets are a necessary item in our daily lives.

We recently read an article in the USA Today, that discussed the simple differences between carry a credit card versus carrying a wallet. In that article, Elias Guerra, the CEO of Popwallet, stated that having a physical credit card makes you more likely to have it stolen and, thus, go through the hassle of calling your credit card company, canceling the card, and waiting for a replacement.

He discussed that a better alternative to a wallet is our ever-present smartphone. Not only is it more secure (passcodes, facial / thumbprint recognition), but it does not permit the stealing of those valuable 16-digit card numbers. Tokenized payments are much more secure, as Manole Capital has written about before. For example, click here for our note titled "Does Apple Know Payments", to read about tokenization and mobile-based security protocols.

As the last question discussed, we can now place plastic cards (credit, debit and pre-paid) into our smartphone wallet. We wanted to ask when Gen-Z thinks it will no longer have to carry around a wallet.

WHEN WILL YOU NO LONGER CARRY A PHYSICAL WALLET?



We were surprised to see that 51% of our respondents said they will always carry a wallet, even with the development of mobile payments. A wallet just doesn't just carry money, but it also carries gift cards, identification cards and photos.

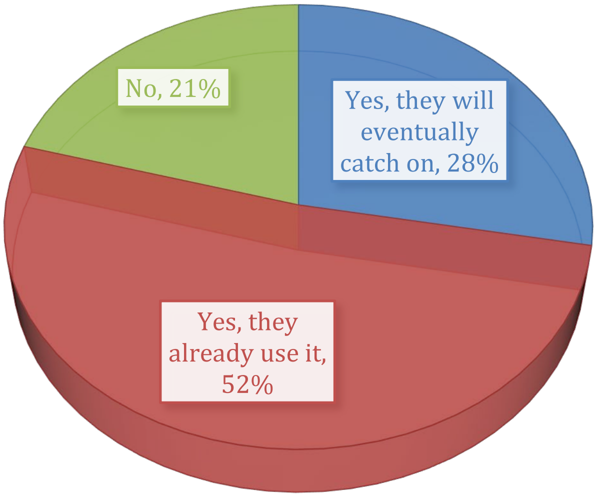
14% said they already do not carry a wallet, but we have to imagine this presents a problem at some stores. There are mini-wallet sleeves, that attach to the back of smartphones that allow one to carry a student ID, 1 to 2 cards and maybe a $20 bill.

14% also replied that it will likely be another decade before that wallet disappears, while 16% felt it might happen within the next 3 to 5 years.

Surprisingly, it seems that Gen-Z actually likes to carry around a wallet. That, or they understand that battery life is a major smartphone problem.

Question #13:

WOULD YOUR PARENTS BE COMFORTABLE USING MOBILE PAYMENTS?



Another new question this year, focused not on Gen-Z, but rather our parents. We asked when we thought our parents might be comfortable using their mobile phone for payments.

Overwhelmingly, 52% of the total said their parents already use mobile payments, while another 28% said they will “eventually catch on.”

We were sad to see that 21% of our respondents said their parents will never embrace mobile payments. There will always be people that resist change, but the process must be safer, more convenient and simpler to use. Once smartphones become widely accepted at all merchants, we believe the vast majority of our parents will look to quickly place their phone over a POS, as opposed to reaching into a purse or wallet for a plastic card. I guess time will tell…

Conclusion:

Manole Capital defines FINTECH as *"anything utilizing technology to improve an established process."* It also believes that the payment industry is the quintessential FINTECH business. Many payment companies make predictable, sustainable, recurring revenue *per swipe.*

Both merchants and consumers were forced to alter their payment behaviors last year. COVID accelerated the use of mobile-based and contactless payments, at the expense of paper currency. The secular growth of digital forms of payments has decades of growth ahead of it.

This payment shift requires both merchants and consumers to embrace technology, which is not something that easily occurs (across all demographics). While Gen-Z loves its smartphones, many of our parents do not. While there has been solid progress towards digital, mobile and contactless payments, cash is still a part of our daily lives. Unfortunately, those unwieldly leather wallets are too!

Steve Jobs said, "You've got to start with the customer experience and work back towards the technology." Our research shows that mobile-based payments needs to continue to focus on being more convenient and improve its security message. As Warren Buffett says, building a great customer experience is critical in maintaining and expanding the "moat around a franchise". Well, the moat around the payment networks is enormous. When one uses a credit or debit card or a mobile-based or contactless payment app, those transactions run over the payment network rails. We believe the customer will embrace mobile and contactless payments once more merchants enable their POS devices.

Writing research for Manole Capital this summer has been enlightening. Speaking of experience, we have seen a number of quotes (about experience) that we believe are apropos to end our second 2021 Gen-Z note. When it comes to wrapping up our payment note, we felt this quote from Harold Geneen was appropriate.

***"In the business world, everyone is paid in two coins: cash and experience.
Take the experience first; the cash will come later."***

Thank you for your interest in our 2021 Gen-Z financial services survey on the payment industry. We will shortly release our next 2 Gen-Z surveys, discussing topics in the banking industry and cryptocurrency.

We would also like to acknowledge and "THANK" Jordan Knepper, Kennedy Runde and Brian Spencer for their hard work and analysis.

Great job team!

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