Sezzle Inc.

First Quarter 2025 Earnings Conference Call

Wednesday, May 07, 2025, 5:00 PM Eastern

CORPORATE PARTICIPANTS

Charles Youakim - *Chief Executive Officer*

Karen Hartje - *Chief Financial Officer*

Paul Paradis - *President*

Lee Brading - *Head of Corporate Development and Investor Relations*

PRESENTATION

Operator
Good afternoon, and welcome to the Sezzle Inc., First Quarter 2025 Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad, to withdraw your question, please press "*" and then "2." Please note that this event is being recorded.

I would now like to turn the conference over to Charlie Youakim, CEO. Please go ahead.

Charlie Youakim
Thank you, and good afternoon, everyone, and welcome to Sezzle's first quarter conference call for 2025. I'm Charlie Youakim, CEO and Executive Chairman of Sezzle. I'm joined today by our Chief Financial Officer, Karen Hartje; our President, Paul Paradis; and our Head of Corp Dev and IR, Lee Brading.

In conjunction with this conference call, we filed our earnings announcement with the SEC and posted it and the earnings presentation on our investor website at sezzle.com. To retrieve the documents, please go to the Investor Relations section of our website. There, you will find the press release and the earnings presentation under the Investor Relations section.

Please be advised of the cautionary note on forward-looking statements and the reconciliation of GAAP to non-GAAP measures included in the presentation, which also covers our statements on today's call. I'm looking forward to discussing our first quarter results with you all as this quarter marked the 12th straight quarter in which we have posted positive year-on-year improvements in revenue and operating income.

It's an exciting time for the payments industry and especially buy now, pay later, as our sector continues to grow and gain market share. Even as we're gaining on other payment methods, we still represent less than 10% of the payments market. We believe that our sector will continue to gain share as we gain share within it. We also believe that it is a great time to be in the buy now pay later space as there is a heightened level of uncertainty in the economy. Consumer sentiment is dropping, and many consumers seek out flexibility in their finances in uncertain times. BNPL provides that wanted flexibility and allows payments to be matched to budgets.

We have said this before, but we will say it again now, BNPL is aligned with responsible repayment. Consumers must be current with us, or they aren't allowed to continue to use us as a payment method. BNPL is very different from a revolving line of credit on a credit card, where large overdue balances can be punted into the next cycle, accumulating large fees and high APRs, leading to a cycle of never-ending debt. We love that we're on the right side of responsible payments.

Looking at our first quarter results, we continue to defy those who say we can't compete with larger, better capitalized competitors. We are doing more than just competing. We are thriving and winning. It turns out that innovation and efficient operations can still produce great returns. Seasonally, the first quarter tends to be our strongest in terms of revenue as a percentage of GMV as the revenue recognition on payment plans initiated in the fourth quarter rolls into a seasonally lower GMV first quarter.

Our provision for credit losses also tends to be improved in the first quarter versus the fourth quarter. The combination of the seasonally better payment trends in the first quarter and a better-than-expected repayment performance on GMV originated in the fourth quarter led to outsized gross margins and in turn, outsized net income margins. We will dive deeper into each of these in our presentation. Adding to our strong performance was the launch of our banking partnership with WebBank in September last year. This quarter was the first quarter that we began to see the full benefit of our partnership with them.

You can see how it all came together on slide three, where we provide a snapshot of our first quarter results. GMV rose 64% year-over-year, well outpacing the overall BNPL industry. Revenue increased 123% year-over-year, driven by a 77% year-over-year growth rate in our monthly on-demand users and subscribers, which we call MODS. These strong top line results, coupled with a 70.4% margin for our unit economics and our ability to continue to leverage non-transaction-related costs, led to a net income of $36.2 million for the quarter.

Yes, as you might have guessed, we are bumping up our guidance for 2025. I don't want to steal Karen's thunder on our revised guidance. But as you can see here, we're increasing our 2025 net income guidance by almost 50% to $120 million from $80.4 million and bumping up the 2025 EPS guidance from a split adjusted $2.21 per share to $3.25 per share. We continue to significantly outperform the Rule of 40 and our similar version, the Rule of 100. Actually, I think we posted a score of over 200 on that metric. We grew revenues by 123% with a gross margin of 70% and a net income margin of 34.5%. That's a total of $227.5 million. Wow! That will be tough to beat. We're going to keep on trying now.

Look, at the end of the day, we're going to keep letting our results do the talking even if some folks in the market might not be fully appreciating what we're building here. We are constantly working to enhance our consumer experience. Proof is in the pudding as our consumer purchase frequency and repeat usage have risen every quarter since the launch of our subscription products in 2022. We're particularly excited about a couple of new product enhancements that are currently in beta stage, Pay in 5 and auto couponing.

We've also stepped into some capital markets activities as another way to enhance shareholder value. As many of you know, our team makes up a large portion of the shareholdings. And with that, we're quite aligned with many of you listening to the call. During the quarter, we announced a $50 million share repurchase program, which went into effect after quarter end. And we also completed a 6-for-1 stock split to make our shares more appealing and accessible for investors with the mindset that this will help increase liquidity in our stock. We believe both decisions are smart capital markets moves.

On slide four, you can see with greater detail some of the product tools we are adding. Our product focus with consumers has been in two areas: financial tools and shopping features. We believe it is critical to give consumers as many financial options as possible. One size does not fit all. Providing consumers with more shopping tools such as a shopping browser extension, price comparisons on products and auto couponing is all done with the mindset of increasing the value provided to our consumers, which in turn should increase retention and loyalty. These are each very early in their rollout to consumers, so we don't think we will begin to fully experience the impact until Q3 at the earliest.

Speaking of rollouts, we are in the early stages of on-demand and what we refer to as MODS as shown on slide five. MODS were up 77% year-over-year to 658,000 and down sequentially from Q4, consistent with the seasonal drop in GMV activity from Q4 to Q1. We are excited about how well on-demand is performing as a new product in our product suite, and we expect it and our subscription products to continue to be the drivers of growth for the company.

As shown on slide six, we continue to see better year-over-year engagement and performance on a number of metrics. What's exciting to see is that our connection with the consumer is growing. We are becoming an everyday go-to product for them. The average quarterly purchase frequency increased from 4.5 times to 6.1 times per quarter. Repeat usage increased 60 bps, and our active consumer count rose by 5.4% year-over-year. I love seeing that subscribers are taking us everywhere as they shopped at 346,000 unique merchants during the quarter.

And our sales team continues to focus on integrating with enterprise-level merchants. We signed three in Q4 and added two more signings in Q1, Shields, a Midwestern sporting goods store and WAP.com, a social commerce platform. We are starting to see the positive momentum from our sales team as evidenced by our signings, but more importantly, by the level of discussions and pipeline development we are seeing with a variety of significant merchants.

On slide seven, you can see that even with the seasonal drop after the holiday season from Q4 to Q1, we still experienced sequential improvements in quarterly purchase frequency, active consumer counts and the number of unique merchants shopped at by consumers. I'm happy to point out that our active consumer count rose sequentially for the fourth straight quarter.

With that, I'm happy to turn the call over to our CFO, Karen Hartje, who will go over our quarterly financial results in greater detail. Karen…

Karen Hartje
Thanks, Charlie, and hello to everyone joining us today. Diving into our first quarter numbers on slide eight, you'll see the momentum continues. We're maintaining our upward trajectory with another strong quarter fueled by disciplined growth, improving unit economics and the expanding impact of our bank program. As Charlie mentioned at the start, we easily met the Rule of 40 and for that matter, our own rule of 100.

Total revenue increased 123% year-over-year to $104.9 million, and our adjusted net income grew 286% year-over-year to $36.1 million. The substantial acceleration of growth rates at the top and bottom lines is meaningful, reflecting stronger monetization per dollar of GMV, thanks to both our MODS program and the unified fee structure under the bank program, all while keeping our expenses in check.

Slide nine shows our GMV and revenue yields in action. Total revenue surpassed our fourth quarter holiday shopping period with our take rate rising to 13% of GMV. Our take rate tends to take a step up from quarter four to quarter one as GMV tends to dip after the holiday season, but we still have the seasonal spillover of payment activity from fourth quarter that occurs in first quarter. Additionally, strong subscriber engagement and a full quarter impact of our partnership with WebBank drove total revenue yield to lead sequential quarter-over-quarter growth despite the seasonal drop in GMV.

On slides 10 and 11, we break down our transaction-related costs, transaction expense, provision for credit losses and net interest expense. As you can see in the breakdown, our transaction expenses substantially benefited from our provision for credit losses as we realized better-than-expected consumer repayment behavior. We remain focused on driving more consumers through the funnel, and we still expect the provision will trend higher over the remaining quarters of 2025 within our guided range of 2.5% to 3%.

Alongside our provision, transaction expense and net interest expense as a percentage of GMV held steady sequentially at 1.9% and 0.4%, respectively. Year-over-year, both metrics improved as a result of an optimized transaction processing strategy and our new debt facility that went live last April.

Given the current volatility and uncertainty in the market, I want to emphasize the strength of our business model as seen on slide 12. Since our turnaround in late 2022, our margins have drastically improved with our trailing 12 month total revenue less transaction related costs as a percentage of total revenue, growing 11.9 percentage points to over 60% for the last twelve months ended in March.

The margin expansion occurred all while we've accelerated our volume growth and expanded our risk tolerance. And the critical factor giving us comfort in an uncertain market is the rapid portfolio turnover with our loan tenure being approximately 42 days and the first loan cohort quality reading two weeks after its origination, meaning we can pivot fast, much quicker than other consumer loan businesses. We're well positioned for whatever lies ahead.

To wrap up this point, you'll see on slide 13 that total revenue less transaction related costs grew nearly three times year-over-year to $74 million representing 70.4% of total revenue. As previously stated, stronger than expected consumer credit performance drove the outperformance for this quarter.

Jumping to slide 14, we continue to stay the course to widen our gap between our total revenue, less transaction related costs and our non-transaction related operating expenses consisting of personnel, data and third party tech, marketing and G&A. Our discipline across all categories, including the deliberate expansion of marketing expense to accelerate growth, leaves us well positioned to leverage our existing infrastructure and continue this trend.

And now our favorite topic here at Sezzle, our profitability as seen on slides 15 and 16. All prior components outlined resulted in first quarter '25 net income reaching $36.2 million with our net income margin expanding to 34.5%. Additionally, adjusted EBITDA margin jumped to 49%. Our ability to drive consistent margin performance while growing revenue at this pace validates our strategic plan and reflects the strength of our current business model. And the stability this provides to our balance sheet is particularly noteworthy as shown on slide 17.

Cash and cash equivalents grew $15.7 million quarter-over-quarter, all while we reduced our usage of our line of credit with quarter end incremental borrowing capacity of $52.2 million. As a cash generating business, we believe it's important to highlight our cash from operations, which grew nearly $20 million year-over-year to $58.8 million for the first quarter of 2025. This provides us with the flexibility to return capital to shareholders, like our recently announced share repurchase program, while also maintaining liquidity for growth investments.

Finally, let's look forward. We are excited to announce that we're raising 2025 guidance across the board, increasing top line revenue growth from 20% to 30% to 60% to 65% and earnings per share from $2.21 to $3.25. I know that's a significant adjustment, especially when you see many companies out there pulling back on guidance completely. So let me walk you through while we're confident about the adjusted outlook.

It's important to start by calling out the tailwinds leading to our $36 million net income quarter. First, demand remained strong in the first quarter, which is usually one of our softer quarters. Second, credit performance surpassed our expectations with the provision for credit losses as a percentage of GMV coming in well below our stated expectations.

Last, the interplay between our subscription and on-demand products has exceeded our expectations. We expected to see a balance between the cannibalization of subscription and adoption of our on demand product. Yet, our subscribers are holding up and even using the product more frequently, and non-subscribers continue to engage with our on-demand product. We expect this positive trend to continue, providing a strong tailwind for 60% plus top-line growth.

That concludes the financial section, and with that, I'll turn it back over for Q&A.

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask a question, press "*" then "1" on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press "*" then "2." At this time, we will pause momentarily to assemble our roster.

Our first question will come from Hal Goetsch with B. Riley Securities. You may now go ahead.

Hal Goetsch
Hey, thank you. Congratulations on a terrific start to the year. My first question is, can you just tell us a little about your funnel of new merchants? What types are they? What size are they? It just seems to me that the NPL is really kind of broadening out? Want to know what are the kinds of retailers that are knocking on your door you're reaching out to? Thanks, Hal.

Charlie Youakim
Thanks, Hal. Yes, so the funnel is great. Obviously, we can't announce any names in our funnel, in our pipeline. But we tend to focus more towards enterprise level merchants now, although we do have a mid-size funnel as well. But many of those merchants don't, they tend not to be like the more name brands that you would ever announce. So, even as we sign and close those mid-sized deals, you're not seeing a lot of those announcements, or you probably won't. But it's definitely a focus towards the larger side of the equation. I don't know, Paul, you have anything to add on that?

Paul Paradis
Yes, I think that's right, Charlie. I would add that we are starting to push into new categories where the NPL has been late to be adopted. If you go back to the start to the NPL, it was heavy and discretionary categories, overseeing a push in categories like grocery bills. So, we're starting to make headway in some new categories that are new to our industry in general as well.

Hal Goetsch
Okay. And when you find these new verticals, are you the solo logo on it or are you another choice of the NPL from maybe another provider that's well known?

Charlie Youakim
Paul, do you want to answer that?

Paul Paradis
Yes. Typically, what happens is a merchant will want to test the waters with one BNPL provider first. And you'll sign an exclusive contract with that merchant for a period of time. And then once that contract is up, sometimes they'll re-up, but sometimes they'll look to add additional providers, so they can capture the loyal customer bases of different providers. So, we are starting to see more and more merchants adding more BNPL providers since we each have our own captive user bases.

Hal Goetsch
Okay. And one last question from me. I'll go back in the queue. But can you just share with us, like what is the frequency in it often that you are seeing from on demand? You're only about two quarters into this? Could you share any more details with us on what you're seeing with on demand, exclusively from, say, monthly subscribers who are paying you a monthly fee?

Charlie Youakim
Yes, I would say that where we're seeing is monthly sequential growth right now, which tells you we've got a winner of a product on that. And the other thing that I think is attractive with on-demand is that on a per-user level, like the gross margin per user, like the same cohort stage seems to be relatively similar to premium in one of our existing subscription products. So, it has a lower barrier to entry, which allows us to bring more consumers into the funnel, which we love. And then once we've got them in on-demand and using us with on-demand, that's where we're starting to use the opportunity to start to market our subscription products, like if you're using frequently, maybe you want to sign up for the subscription because it's a better bargain for you.

Hal Goetsch
Okay. And, and I guess, one last question on the NOSYS Eagle front, it looks like they your…despite this growth, your outstanding kind of fell I guess maybe December is a back half loaded kind of month where you have a lot of a little bit more seasonally higher receivable balance on December 31 and maybe a more even paced spending throughout the first quarter?

Charlie Youakim
Yes. I think that's some of it. Karen, do you have anything to add on that?

Karen Hartshey
Well, I think we do have heavy receivable growth in fourth quarter because of the holiday season, and then the payments are coming still on that in January. So, January you know, early in first quarter is our heavy payment receipts period with seasonality.

Hal Goetsch
Yes. Okay. Yes. Because it just looks like you've generated just a ton of free cash flow in the first quarter when those payments came in. That's terrific.

Karen Hartshey
That's typical of our quarters

Hal Goetsch
Yes. Alright. Thank you very much. Good job.

Charlie Youakim
Thanks, Hal.

Operator
Again, if you have a question, please press "*" then "1." Our next question will come from Mike Grondahl with Northland. You may now go ahead.

Mike Grondahl
Hey, guys. Thanks, and congrats on a very robust quarter. A couple of questions. Are you able to quantify or give us a sense of the WebBank partnership and the financial benefit you saw there having a first full quarter?

Charlie Youakim
I think probably the best way to do that is probably just go look year-on-year differences and profiles of the company. If you look at fourth quarter to first quarter last year versus fourth quarter to first quarter this year, maybe a couple of quarters more, I think you'll start to see like where WebBank is helping us. And I think the gist is look at our revenue yield as a percentage of our GMV. That's a big part of it because there was a number of states where we were running sub optimally because we're going state by state. With WebBank, we basically just ran the product as designed through web offering, the lending products and not Sezzle.

So, I think that's basically where you could probably pick up a lot of the differences. I know some of that's not true AB as we've got other products in the mix. But I think you'll kind of get a sense looking at year-on- year.

Mike Grondahl
Yes, from revenue yield. Got it. And then the 658,000 of on-demand and monthly subscribers, MODS now, you talked about the stickiness of those monthly subscribers. What would you attribute that stickiness to? Your shopping experience, just the overall consumer experience, it sounded like you were surprised by how strong, how sticky the monthly paying subscribers were. So just like a little more color there.

Charlie Youakim
I…the story I kind of give when I think about this is, you know, I think early think early day's credit cards. Because it is early day's credit cards were kind of similar to early days by an opulator. Not that I was alive back then, but from what I've read. But imagine, like, you have a Chase card, and you go into a restaurant. They're like, oh, we only accept Amex here.

You know, now you have to have an Amex card to shop at that…be at that restaurant or be at that store, which I think early days credit cards are basically what's happening. So early days BNPL thing kind of thing. It was like, you've got to have Sezzle to shop at this store, or you've got to have one of our competitors shop at another store. That can be kind of annoying, I think, for a customer. And so, with our subscription products and now on-demand, I think it just creates like an ease of mind or ease of use aspect to the product.

I don't have to care what that store thinks I should use. I can just be heuristic, I can just use Sezzle. I don't have to think about it. I'm going to get paid for. I like how Sezzle operates. I like their app. I like their functionality. I can just go in there and tap now because I've got anywhere or premium or on-demand. And I think that just creates an ease of use for the…and which is value for the customer. And now they can use that card everywhere. Just like, you know, just like you probably use the same credit card everywhere. You just don't want to think about it. So that that's what I would think it would be like.

Mike Grondahl
Clear, fair. Okay. And then, you know, I get asked a lot about credit quality. The 1.6 was, you know, nicely lower than where you guys were thinking it was going to be and I know you've loosened credit quality, and, clearly, we've seen that in the volume. Could you just talk about how you're managing credit quality? I think that would be helpful. And then I have one more after that.

Charles Youakim
Yes. We know our profitability levels are a lot stronger year-over-year, which basically we're shooting for that 60% type gross margin. And so, if you know that your top line is at a higher level, you can accept a little bit of a higher cost. To still hit the same gross margin and that cost PLR that we're talking about. So, that allows us to be a little bit more open. But I mean, trust me, we're not trying to just open up to grow volumes. We think about it in terms of ROI and on terms of maintaining gross margins that we like to maintain. So, that's probably like why we came in where we did. Plus, with first quarter, there's always provision. And so, in fourth quarter, we have to provision, which is an estimate of what we think the losses will be on those loans. And we had a little bit better than expected results as well.

So, that led into the 1.84 or the number for the first quarter, the PLR because we have to make an adjustment when things come in better than we expected. And then the first quarter itself is just a good quarter for this customer because they tend to be getting tax refunds. So, that all kind of played into it. But we can…we gave that guidance of like the 2.5% to 3% PLR for the year. And for now, we're sticking with that. We still think that that's probably the right range, even though the first quarter is coming in much lower than that.

Mike Grondahl
Got it. And then hey, just lastly, could you give us a little bit of color about Pay in 5 and auto couponing, just describe those at least?

Charles Youakim
Yes. So, Pay in 5, we did a survey to our customer base, and it was…and not just our customer base, but also BNPL users outside of our customer base and asked them pay in 5 versus pay in 4, what do you like? And I know some of it kind of seems common sense. Someone would take an extra payment, but the results were really surprisingly positive. And so, I think most of business is common sense, quite frankly. I don't think a lot of it is rocket science. And when our customers and other potential customers are saying that they would really love that type of a product, we are like, okay, let's get that in the mix and try it out.

And what we're seeing so far is it looks pretty good. Like we're pretty happy with the results thus far. It's still early. It's less than 10% of our volume at this stage. And so, that's really the gist of it. It's nothing extravagant. It's just basically instead of it being a 6-week product, it's an 8-week product with slightly lower payment amounts. And customers just like that from what we're seeing. So, we feel good about that. We're probably going to keep on increasing volume to pay in 5 as long as we keep on seeing good results, in terms of profitability, in terms of repayment, in terms of uptake from customers.

And then auto couponing, basically the idea behind that is just keep on helping our customer. So, our customers is mid-to-low income, younger customers. And if you can surprise and delight them by all of a sudden, they're shopping at Dave's Sporting Goods and we found you a $15 coupon that you didn't even know existed, well, you're going to remember that. No doubt about it. These customers will remember it. That will create loyalty and retention and keep them around our ecosystem. And that's really the idea there. It's not…we're not doing a lot on the shopping side, I'd say, to increase profitability levels. It's more about just giving this customer tons of value for being in the Sezzle ecosystem. That's the main part of it right now.

Mike Grondahl
Fair enough. Hey go Wolf. Thanks guys.

Charles Youakim
Yes, and go Wolf for sure.

Operator
This concludes our question and answer session. I'd like to turn the conference back over to Charlie Youakim for any closing remarks.

CONCLUSION

Charles Youakim
Thank you, operator. And also, a big thank you to the Sezzle team. We continue to execute on a high level, which is why we continue to outperform in our results. I'm sure of it. And in closing, out of homage to Warren Buffett in his upcoming retirement, I'd like to tell a Warren Buffett story to end the call.

In the early 1960s, American Express was embroiled in a huge scandal. A company called Allied Crude Vegetable Oil used fraudulent collateral, barrels filled with mostly water, not oil, to borrow millions from banks using Amex's letters of credit. When the fraud was exposed, Amex stock plunged by over 50% and everyone thought the company might collapse.

Warren didn't panic. Instead, he dug in a little deeper. He realized that despite the scandal, the core Amex business was doing just fine. He talks to bank tellers, bank officers, credit card users, hotel employees and restaurant workers to get a feel of whether usage had fallen off. Based on that research, Buffett concluded that while Wall Street had punished Amex by battering the stock price, Amex's reputation hadn't been tarnished on Main Street.

The research led to a very large investment in Amex at that time. Buffett invested around $20 million in Amex, which is over 40% of its fund size and around 5% of Amex's market cap. The results, Amex stock tripled from that point within a couple of years and became one of the first home run investments for Buffett. Warren's lesson and his quote: "the stock market is a device for transferring money from the impatient to the patient." That's the story. Cheers to the patient, long-term holders of Sezzle. Have a great evening, everyone, and thanks, operator. We'll end the call now.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.