Sezzle, Incorporated

Third Quarter Financial Results Call

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CORPORATE PARTICIPANTS

Charles Youakim - *Executive Chairman, Chief Executive Officer*

Karen Hartje - *Chief Financial Officer*

Paul Paradis - *President*

Lee Brading - *Head of Corp Dev and Investor Relations*

PRESENTATION

Operator
Good day, and welcome to the Sezzle, Incorporated, Third Quarter Financial Results Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. Please note, this event is being recorded.

I would now like to turn the conference over to Mr. Charles Youakim, CEO and Executive Chairman. Please go ahead, sir.

Charles Youakim
Thank you. Good afternoon, everyone, and welcome to Sezzle's 2024 third quarter earnings call. My name is Charlie Youakim, I'm the 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 have posted along with our earnings presentation on our investor website on @sezzle.com. If you have not done so already, please go to the Investor Relations section of our website. There, you'll find the press release and earnings presentation under quarterly earnings within the financial section. With that done, let's get started.

I'm very excited to share our latest quarterly performance. Our strong growth momentum continues to show in our financial results, as we set new highs in several areas. The combination of stronger than anticipated results plus the launch of a banking program with Web Bank has led us to raise our 2024 guidance. Many of these items are captured in our summary provided on slide three, If you want to flip ahead.

The first item to pop out on that slide is that our quarter three revenue rose 71.3% year-over-year. Like Q2, our strong performance was driven by the rise in consumer purchase frequency and the growing number of subscribers. Our subscriber count reached 529,000 at the end of the third quarter, which represents an increase of 67,000 subscribers when compared to last quarter. Clearly, we are outpacing the buy now, pay later industry as reported by third-party research companies such as Adobe Analytics.

Net income for the quarter came in at $15.4 million representing a net income margin of 22.1%. Like Q2, we have some one time discrete tax items to adjust to that number, which is why we provide an adjusted net income. Our adjusted net income of $17.3 million reached a new quarterly high and an adjusted net income margin of 24.7%, marking the second quarter in a row in which our adjusted net income margin has exceeded 20%.

On past calls, we've talked about the Rule of 40 and our own Rule of 100 where we want to strive for 20% revenue growth on 60% gross margins, and exceed a 20% net income margin. This quarter we had 71% revenue growth, a 55% gross margin and a 25% adjusted net income margin. We tallied a score of 151 on our own hard to reach Rule of 100. However you want to slice it, we are proudly exceeding the financial performance of the vast majority of listed companies.

Slide three also provides a sneak peek into our guidance, which Karen will provide greater detail on at the end of the presentation. Nonetheless, I will make a couple of comments here. Our new guidance now includes the estimated impact of our partnership with Web Bank. As discussed in prior calls, our previous guidance did not reflect our partnership with Web Bank Therefore, the combination of our new banking program and the strong outperformance in Q3 has caused us to update, and I'm happy to say, raise our guidance. The 20% growth in our 2025 adjusted EPS guidance over 2024 is post-tax. I want to call that out because we're looking into a roughly 20% tax headwind in 2025 and still expecting to grow EPS by over 20%.

Lastly, please take note of our accolades from third parties, our strong ratings from consumers, and the frequency amongst our top 10% of users. All the indicators are saying that we are making the right moves for all of our stakeholders. Speaking of stakeholders, our guiding principles shown on slide four provide us with a path to ensure that we are headed in the right direction.

Believe me when I say we question and scrutinize every move we make, and these key principles are at the core of those decisions. The proof is in our results. We are visibly outperforming our peers when it comes to profitability, and that would not have happened if we had not been increasing consumer lifetime values or acquiring new users.

Our latest product offering On Demand, checks all of the boxes of our guiding principles. It shares many of the same attributes of our subscription products, particularly the goal of enhancing the consumer's experience while also helping us increase the lifetime values of our consumers. We will discuss On Demand in greater detail later in the presentation, but I believe it will be one of the next significant growth vectors in Sezzle's journey.

And last but not least, the all-encompassing stakeholder satisfaction guiding principle, we are, after all, a public benefit corporation. Many think a public benefit status conflicts with being profitable. We disagree, and we believe being a good steward doesn't mean you can't be profitable. We track a variety of metrics to make sure we are aligning ourselves with stakeholders such as consumer satisfaction, merchant sentiment, employee happiness, and stockholder returns, to name a few.

Our guiding principles led us down the path of one of our most significant operational activities that we have conducted in the history of Sezzle, launching our partnership with Web Bank as reflected on slide five. As mentioned earlier, I'm excited to share the news of our Web Bank partnership with you. We feel lucky to have found such a partner that is very much aligned with us. We were told by many that they are the gold standard for bank partners and we believe that we are on the right path with them.

Prior to today, the banking program was not a part of our guidance on a go-forward basis, but today it will be. Let me give you a little more color on how the program will benefit us. Before this partnership, we had to manage everything on a state-by-state level, which makes running our business a lot more complicated, particularly when it comes to compliance. The banking program unifies our product construct across the United States under the bank's national charter, which allows us to standardize our regulatory procedures on a national level, rather than a state-by-state approach, thus aiding in our profitability.

More importantly, the banking program enables us to introduce new products that will be a key to future user acquisition and consumer lifetime value expansion, as suggested on slide six. As we evolve, we continue to focus on the needs of the consumer. At each stage of our journey, we have successfully enhanced the user's experience while increasing their lifetime values. Without having the consumer in mind, you can't have a successful product.

We are presently focusing on two areas for our users, financial tools and shopping tools. I believe that we are just at the beginning stages of our relationship with the consumer as there are so many more things they need. In addition to On Demand and our product marketplace, we have listed several other areas we are considering for future products and future launches. Not all of these are for certain, but we wanted to give you an idea of the variety of opportunities that exist in our future path.

But let's talk about one product that is for certain. On Demand as shown on slide seven, we couldn't have launched this Pay in 4 product without the Web Bank partnership. Its biggest deliverable is that it will allow consumers to use Pay in 4 everywhere, even if they don't have a Sezzle Premium or Anywhere subscription. We get it, many first time users don't want to immediately sign up for a subscription. We believe that On Demand creates a bridge for those users to potentially become subscribers down the road.

We are unable to get much detail at this time as it is a very new offering, but we expect On Demand to help us in two areas. First, it should allow us to be even more competitive for enterprise merchants as it will give us another means of monetization. Second, we expect greater consumer activation within the purchase funnel as new non-subscribers can choose to incur a one-time service fee at the point of purchase to shop anywhere Visa is accepted rather than the only previously available option of signing up for a subscription.

Early data suggests user activation into our monetized programs, i.e., our subscription and On Demand programs is happening at a 30% higher rate, now. There will be some learning curve when it comes to the balance between On Demand and subscription. We believe both will be very important to the future success of Sezzle, with On Demand serving as a bridge to premium and anywhere subscription.

As you can see on slide eight, we had another quarter of solid growth as we finished the quarter with 529,000 subscribers. The growth in the quarter was driven by our efforts to attract first time users through advertising and expanding the pool of current users that were able to join. With the launch of On Demand, we expect to see a trade off with subscription as new consumers to Sezzle will have more choices as they look to shop everywhere with us.

The activity and feedback on our subscription products has been phenomenal and we expect Premium and Anywhere to be core products for the long-term. Nonetheless, we think the flexibility On Demand offers will greatly increase consumer activations in the purchase funnel and we are already seeing that early sign, as I pointed out earlier in the presentation here.

We also expect our monthly active On Demand users to be as important a metric to the company going forward as subscriber count, and you might be wondering why. And the reason is once we've shown a customer the ability to download our app and use us in more places, we believe that we've successfully converted that customer into a strong LTV customer for the company, and we believe that On Demand will follow that same path of creating strong LTV customers.

It's likely that in the near to intermediate-term the interplay between On Demand and our subscription products will create some waviness in the subscriber counts, with them even potentially going down as On Demand pickup accelerates. Bottom line, we believe the net net of subscription in On Demand will be positive for our financial performance as well as our customer experience. As I say this, I also want our investors to know that we did take such volatility into consideration as part of our 2024 and 2025 guidance, and that segues us over to slide nine because now that we've got a handful of strong LTV products, the new goal is getting more consumers into the funnel. One way to do that is by increasing awareness and making more noise.

As shown on slide nine, we have several ways we are trying to increase product awareness with consumers as well as general awareness of the brand name Sezzle. As you will see from our 10-Q that will be filed in the morning before the market opens, we did increase our marketing spend during the quarter compared to the first half of the year, but admittedly not as aggressively as we anticipated as much of the airwaves were clogged up with political ads. As the airwaves clogged up, the cost of having one's voice heard during the political season also increased, making the ad spend not worth it in many instances. We expect to be able to have a greater opportunities now that the political season has passed.

Nonetheless, we have successfully gotten out there with selective engagement strategies, and we might be a little bit biased, but we believe the Jersey Patch sponsorship of our hometown NBA team, the Minnesota Timberwolves, has been a great awareness strategy for us. The Timberwolves are approaching 30 nationally televised games this season, not including a likely playoff run. The Wolves also have Anthony Edwards, who looks like a reincarnation of Michael Jordan to me. I have my fingers crossed that they can lead the Wolves to an NBA title with our logo on his chest. Whether they make it to the championship or don't make it, we believe we're set up to increase our brand awareness dramatically through this partnership.

Now please turn to slide 10, where I'm happy to say that everything on the screen is green. As discussed in prior periods the one laggard was active consumers and that too is now positive and trending in the right direction. We want to become top of wallet for consumers and the numbers suggest that we are becoming a more important part of consumers' lives. While slide 10 shows the year-over-year progression, slide 11 reflects the sequential performance quarter-over-quarter, which also supports our strong momentum.

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
Thank you, Charlie and hello to all. On to slide 12. I'm happy to go into greater detail on our quarterly results. It's always fun when the results are this strong. Total revenue increased 71.3% year-over-year due to a 41% increase in UMS and a 167% rise in subscription revenue. We have provided adjusted numbers to remove the noise mostly related to the discrete nature of our deferred tax valuation allowance, which is non-recurring. We believe this provides a more reflective run rate of the company's results.

Adjusted net income was $17.3 million for Q3 compared to $1.2 million in the prior year. The significant gains to the bottom line were driven by all facets from revenue growth which was up 71.3% year-over-year to unit economic gains as total revenue less transaction-related costs rose to 55% of total revenue compared to 49.2% in the prior year and leveraging our non-transaction operating expenses which fell to 30% of total revenue compared to 46.2% a year ago. These results are further captured in our EBITDA margin which rose to 32.2% compared to 18.5% a year ago.

On slide 13, you can see the third quarter revenue growth of 71% year-over-year is outpacing our UMS growth of 40.6%. Most of the additional revenue growth beyond UMS is attributable to subscription, particularly Sezzle Anywhere. At the end of third quarter 2024, we had 529,000 subscribers compared to only 210,000 in the previous year. We didn't launch anywhere until June of 2023, thus a lot of UMS and subscriber growth occurred subsequently. We have our bundled transaction-related costs under slide 14.

Transaction expense, which is primarily payment processing costs, declined to 1.9% of UMS. We believe we can maintain a level of around 2%. Net interest expense continues to hover around 0.5% of UMS as we are reaping the benefits of going to a lower-cost facility in April of this year.

Meanwhile, our provision for credit losses rose in line with our expectations. As noted on our Q2 earnings call, we guided that the provision would increase in the second half of the year toward the mid-twos as a percentage of UMS due to seasonality and our decision to open the funnel to more consumers given the confidence we have in our underwriting models. We believe the previous guidance of being in the mid-twos in terms of our provision for the second half of the year remains reasonable.

Given the decision to optimize our top-line growth with a controlled expansion of our consumer funnel, we thought it would be helpful to provide a little more insight into our underwriting as shown on slide 15. Our proprietary underwriting ecosystem centers around what we call our profit models. Yes, we believe our system is both a soothsayer and a driver of bottom line profitability.

Our profit models are proprietary machine learning models first launched in fiscal 2022. We have the baby profit model for new consumer signups, and we are on the fourth generation of our profit model for existing customers. The last part of our profit model series is the false profit for fraud. Comparing the performance of the baby profit to FICO as shown on the chart on the left, we have found that our baby profit model is a better predictor than FICO for consumer delinquencies.

What gives us further confidence in our underwriting is the chart on the right, where we have overlaid charge-off performance based on consumer deciles from the riskiest to the least risky. You can see that the charge-offs by group are appropriately sloped from the riskiest consumers in decile 1 to the least in decile 10. If there was lumpiness in the charge-offs from decile to decile, we would see that something is off in the inputs we use in our models. This system also allows us to set spending power appropriately for consumers.

Lastly, I would like to point your attention to the bottom chart, which shows a proxy for delinquencies over time for our most loyal consumers, those that have made more than 10 orders with us. This group represents most of our sales activity and we have not seen any degradation in their credit performance. In fact, for each one of these cohorts, the results are either flat with the prior year or slightly better. The proof of our effectiveness in underwriting credit risk can be seen in slide 16. We were able to grow the top line by over 70% year-over-year and increase our unit economic margin to 55% from 49.2% in the prior year. The 55% is consistent with the guidance we've provided in Q2.

Now let's turn to Charlie's favorite charts on slide 17. Here you can see the outcome of growing our top line, improving unit economics, and leveraging a cost structure. Our goal is to separate the lines on the chart on the right as much as possible. Yes, it sounds simple, but we believe we have the right team in place to continue to find opportunities to grow while leveraging our costs.

We expect our results will continue to translate into strong bottom line performance as shown on slide 18. We had some minor adjustments this quarter, mostly related to our deferred tax asset valuation allowance. Either way you look at it, net income or adjusted net income margin has exceeded 20% for two quarters in a row. We have also achieved an EBITDA margin in excess of 30% or three quarters in a row as shown on slide 19.

Profitability helps liquidity and allows us to consider various options for shareholders such as the 15 million stock buyback plan, we completed during Q3. During the quarter, the remaining $7.1 million of the plan was fully executed. As shown on slide 20, we have over $80 million in unrestricted cash with an additional $17.9 million available on our line of credit. We are always evaluating ways to manage and strengthen the balance sheet.

So we will be filing a universal shelf registration with the SEC in the near future. I am mentioning it here because I don't want anyone to jump to any conclusions. We do not have any immediate plans to raise capital, but we believe it is good housekeeping to have one in place. The shelf will have a three-year life after being declared effective by the SEC.

Lastly, on slide 21, I do want to touch on our guidance before turning the call over for Q&A. Our updated guidance now includes the impact from the launch of our banking program with Web Bank, which was not part of our previously provided guidance. Further, this, coupled with our outperformance in Q3, is leading us to boost our 2024 guidance in several areas. We are also providing guidance for 2025 for the first time.

Given the launch of the banking program and that we are becoming a full taxpayer in 2025, we thought it would be beneficial for investors to get some direction for 2025, albeit only at the adjusted EPS line. We anticipate providing greater detail through our 2025 forecast in 2025. We believe our guidance provides some insight into how positive we are about the direction and future of Sezzle.

With that, I would like to turn the call over to the operator as we are happy to take your questions. Operator, will you please open the lines for Q&A?

QUESTION AND ANSWER

Operator
Thank you. Well, now I'll begin the question-and-answer session. To ask a question, press "*" then "1" on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press "*" then "2". This time we'll momentarily pause to assemble the roster.

First question will be from Mike Grondahl of Northland Securities. Please go ahead.

Mike Grondahl
Hey, thanks guys. Could you talk a little bit about what you've learned so far with the bank partner and how the new on-demand product is going?

Charles Youakim
Sure. I think first thing with the launch of the partnership, I think a lot of what we expected to happen is happening. Okay, but back to Web Bank, I think what's happening is what we've really expected. It's really simplified the business and helped us to focus on a unified product

construct. And that is helping profitability. It's helping profitability because it simplifies the business, but also in a number of states and the state-by-state approach, we were quite limited. And now with a national approach, we are seeing some pick up in our revenue and our profitability, in some states across the US.

And that's I might just, that's provided or that kind of like impact is provided in the guidance. It's in there, I guess. And then as far as On Demand, we mentioned 30% increase in activations. So we're presenting On Demand along with subscription to consumers as they enter our app et cetera. And we are seeing increased pickup, which is what we expected, I think when the customer comes into the app, we kind of understood that for some customers, it might be a bridge too far. You use this once, like a premium model with a merchant checkout, and then you come to the app, I'd love to check the checkout, so I will use us as in more places.

And then we're asking you for 12.95 or 17.95 per month and a commitment of some kind. And I think that created some restrictions in some people's thoughts. With on-demand, it basically reduces the friction to the entry. And so, that's helping with the activations. And then part two, what was it again Mike? Part two?

Mike Grondahl
It was the On Demand stuff. And maybe just one follow-up, Charlie. Any update on the bank products you want to offer, is that mid 2025? What's the current thinking there?

Charles Youakim
Well, we have these two pillars based in the company, of what we want to keep on focusing on because we think that consumers kind of view us this way. We have a financial benefit or financial tooling benefit to consumers, but we also have a shopping benefit to consumers. I always kind of think of analogies and I think of the company as like we're an athlete trying to be as agile as possible. We just kind of like leaned into our left foot with financial services, getting on demand, launch, getting the web and partnership. I think we're probably going to…push back over to the right foot to the shopping side and really try to create some incredible shopping features in the app because we know that those shopping features can attract new consumers, can make the product stickier, can just overall enhance the value creation to the consumer.

So I think in the near term, we'll be really focusing on those shopping features. I think that being said, we're not going to totally ignore the other side. We're not going to ignore financial services additions or financial products. But I would say probably no commitment on the timeline. I'm sure we'll have one or two products potentially on the financial services side that we launch in 2025. But the near term is really the focus more on the shopping side.

Mike Grondahl
Fair. And you guys said that 90 days ago too. So that makes a ton of sense. And hey, congrats again on the robust quarter and guidance.

Charles Youakim
Thanks a lot, Mike.

Operator
Thank you. Next question will be from Nico Sacchetti, RBC. Please go ahead, sir.

Nico Sacchetti
Hey, everyone. Congrats on a good quarter. Can you hear me?

Charles Youakim
Yes, thanks. We appreciate it.

Nico Sacchetti
Can you just clarify, so the full year 2024 guide, is this a gap number 1205 and your adjusted number is 980? Is that adjustment from the cost around launching the banking program?

Charles Youakim
No, the adjustment is around the discrete cash items. Karen, you want to provide more details on that?

Karen Hartje
We had [indiscernible] against our deferred tax asset which we released given where we are going with profitability and that created in second quarter a huge discrete cash item that was still…you know, we still have in our box and so we backed that out and some other smaller one-time items to come up with an adjusted number that is more meaningful to investors.

Nico Sacchetti
Okay. And then it's $12 in adjusted earnings guidance for the upcoming fiscal year?

Charles Youakim
Exactly, exactly. And that…you know apples-to-apples, that's more in comparison with the $9 plus number in 2024.

Nico Sacchetti
Got it. Okay. I mean, you are growing at such an incredible clip. I am just curious, you know, from what you guys are seeing. Where do we go from here? I know you like the basketball analogy but maybe, you know, what inning do you think we are in. What's the outlook from here? I mean, we are looking at 20% net income margin, 30% EBITDA margins and now 55% revenue growth. You know, what do you think is the goal from a growth standpoint and what's the opportunity ahead look like?

Charles Youakim
I think we really think about it more in terms of, you know, we've got this grey sector where buy now pay later I think the estimates out there is that buy now pay later itself is going to grow 20% year-on-year as a whole. And our view is that we are outperforming the entire sector. We had 71% revenue growth year-on-year in the third quarter and so the way I can always view it or our team is viewing it is the sector is going to grow. A lot of our competitors are going to do really well, but as we are doing that our strategies and our approach, we believe that we are going to be able to, kind of, push our shoulders out and gain market share in the sector that's also growing.

So that's basically what our approach has been. You know, we kind of always looked to Australia as the canary in the coal mine for the sector and they've had you know growth above and beyond what you've seen in the US so far to be launched there a couple of years earlier. So we definitely believe that there is growth to be added in the sector and then our goal is to just, you know, spread…increase our market share within the sector as we are doing that, just through really strong strategies.

Nico Sacchetti
Is there anything you can attribute to, like, is there some secret sauce in here or just more of what've discussed around not chasing growth at any cost but more this quality growth approach.

Charles Youakim
I think we definitely have the quality-growth approach and not seeking growth at any cost. You know, we think long term, we think like in five-year views. So we are willing to make decisions that fit that. I know that people…a lot of people out there doubt this kind of like competitive advantage but I think our team is incredibly awesome. I think we have very high standards in hiring. We have very high standards in performance management and great talent attracts more great talent and I think that if you look at our history, we've come up with lot of strategic or product differentiations that have helped us but those types of production differentiations are created by an excellent team. And so I think we've had incredible retention. We've had an incredible team which allowed us to become this amazing athlete, you know, in the analogy view that just outperforms and I think that my view and our view is that we are going to keep on doing it because we have an incredible team that really understands, you know, how to cut the BS out of the game and go after real results but also really hit it and [indiscernible] all the stakeholders along the way while we are doing it.

Nico Sacchetti
Is there any tie to a weaker consumer that is maybe helping the business where it looks like people who are existing customers of yours are using it more frequently by quite a substantial rate above what you saw a year ago, any idea what you can attribute that to and maybe like do you have a reference point for what's common in the industry for how often people are using these, you above, below, you know, what's kind of a sweet spot for frequency of used-free consumer?

Charles Youakim
I think it's about less about like a weakness sign. That's how we have on slide 15 at the bottom, controlled expansion, optimized topline growth with no deterioration in settled core customers. We want to provide that kind of proxy for dealing with these because we are not seeing any deterioration and if you saw our customers spending too much like kneading the product, you see a deterioration. I think the reason we are seeing increased utilization from our existing customers or customers in our business is because we are providing better products than our competitors. I think we are providing products that are stickier. I think the customers like it, they like our product, they like using it and so instead of using a competitive product out there, they are preferring to come back to ours. I think that's really the key. I think Nico, I think you see deterioration if they were weak financially and just coming to us because they needed us is I guess the point.

Nico Sacchetti
Sure. Okay. Last question is, you know, from past years. Is there any seasonality with your business where like going into a holiday season you expect a good Q4 and then things kind of tail off in Q1, just any idea what the cadence over the next couple quarters looks like.

Charles Youakim
Yes, there is definitely a seasonality. I mean, we are retail linked. So…but it's a little bit unusual. We talked about this in the past a bit but, you know, a lot of time during the holiday season, we tend to play a lot of defense. We try to make sure that customers don't overspend and I think this is something that new investors, maybe, it's worth hearing for new investors as well as…you know, I think this we are very different than credit cards and I think in many ways

better for consumers than credit cards. Because in holiday season, we try to restrict spending. In some cases, we lower limits where we see it with some customer base…some of the customer base. Because if the customer overspends too much, they fail, and if they fail they can't make another purchase and sometimes, if they fail with too big of an outstanding balance, they walk away. You know, its common sense. With credit card companies, I think, on the flip side, they'll never tell you this, but I think they love it when people overspend in the holidays because when they overspend in the holidays, they create a revolver and the revolver becomes a revolver for the next five years paying interest rates et cetera.

So, I think this is what…and that's kind of dynamic. I think it really shows why Pay in 4 is a way better credit product especially for young consumers as they get into their first credit products because there is a way less of a chance that someone overspends, you know, goes over their skis with our products because we're busy hand-in-hand same and center structure as the consumer to not overspend. We don't want them to overspend because if they overspend, there's a greater chance that we lose them forever and we bring a lifetime value to zero.

So, there's going to be an increased spending in Quarter 4. We defend quite a bit while it is happening, but so you'll see that and then in Quarter 1 spending goes down, but we're in the tax season and a lot of our customers in mid-to-low income, they get a lot of tax returns, so we tend to have a lower principal loss rate as well. Where in the fourth quarter, there is going to be a higher principal loss rate in general because of overspending in the holidays. As much as we try to restrict it, it does happen.

So those are sort of the dynamics. It's really Q4, Q1 of the big seasonality's and then Q2 and Q3 are more normalized.

Nico Sacchetti
So, just for my understanding, a real-life example of this would be like I have a $500 limit. You're able to track my what, spending habits and proactively drop my limit going into the holidays?

Charles Youakim
Yes.

Nico Sacchetti
How do you actually?

Charles Youakim
Yes, it will be less of a one-by-one but if you look back to that slide, slide 15, you know we had this score [indiscernible] by baby profit and we are looking at this. And what we might do is we might say for new customers coming in into the service score level, we'll start at lower levels in the holidays. For existing customers we'll restrict growth and limits behind the scenes, or not behind the…people see the limits.

We'll restrict growth or maybe if there is a…some sort of a negative event in the model that we have, it might bring limits down faster in the holidays if something happens. Like let's say a payment failure occurs, you might bring it down. Instead of a 20% drop in limit, it might be a 35% drop in limit. Just to kind of….because we know. And by the way some of these….there are instances, these are not exact but that kind of gives the gist of what we do.

Nico Sacchetti
Okay. Understood. All right. Thanks for your time. Congrats on the quarter.

Charles Youakim
Thanks.

Operator
Thank you. Again if you have a question, please press "*" then "1". Next question will be from Hal Goetsch of B.Riley Securities. Please go ahead.

Hal Goetsch
Hey, thank you. Can you give us a perspective on how much of your UMS is from monthly subscribers and how much is from the occasional user? And I can use it, but you only use it occasionally not under a subscription.

Charles Youakim
Karen do you have any of that data, like, at your fingertips?

Karen Hartje
Yes, we don't really disclose the sources of UMS externally. But, you know, we have the breakdown of the revenue stream in our 10Q.

Charles Youakim
Yes. And I think one way you can find it Hal is I think on slide eight, I think we talked about frequency numbers versus our core customers such as eight more orders from subscribers versus non-subscribers during the third quarter on average. So, I think there's primary [indiscernible] you could kind of make it…use that as like a proxy for volumes.

Hal Goetsch
Okay. And on the marketing side, you said there was…the election environment crowded you guys out. So, what might you have tried to expend or kind of what's kind of the goal of expending to and on marketing to grow this a little bit, because there was a…one and up is a slowdown…that advertising pullback or what you didn't want to do did cause the number of new subscribers to be different than it was in 2Q.

Charles Youakim
Yes, the one thing we use is not a goal and stand. It's more of a goal on ROI. So, we have this like six-month sort of mindset. We want to get our money back in six months and if you look at the lifetime value, accumulated versus the expenditure. And so, our lifetime values kind of staying in the same place. That's really about…that tells us what our expenditure could be. And then using that same expenditure number with ballooning costs across all the advertising channels out there. I mean…I don't know if you were watching TV during the political season, but I was basically watching political ads nonstop.

So, the bases are crowded out, reasonable spend during the time period and that basically kind of pushed us out on some of that spending. And that…right now it's not a…we're not totally dependent on that because we have two channels. Basically we have two parts of the…two funnels are coming to our subscriber or monetized user base. One of those is from direct-to-consumer advertising which is newer for us and then the others are more traditional directly integrated merchant acquisition which is still happening.

So we acquire a consumer…a shared consumer with our merchant partners. We can advertise our subscription products. That's free. So, we still have that. It was more of an impact on the newer channel which is the direct consumer advertising that we're more inclined to do now that we have lifetime values that support it.

Hal Goetsch
Alright. Terrific. Thanks. I'll get back in the queue.

Operator
Thank you. This ends our question and answer session. I would like to turn the call back over to Charlie for closing remarks.

CONCLUSION

Charles Youakim
Thank you Operator. In closing, I'd like to thank the Sezzle team again. As I mentioned earlier, we continue to make tremendous strides in our business and I know it's because we have an incredibly talented team rowing in the right direction. And before I go, I wanted to add a quote from one of my favorite investing heroes, Benjamin Graham. People who invest make money for themselves. People who speculate make money for their brokers. A big thank you to the investors out there and an apology to our investment banking partners for this quote suggestion that people and firms should speculate less. Thank you all and have a great rest of your day.

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