TRANSCRIPTION

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Operator: Thank you for standing by and welcome to the Sezzle, Inc. first quarter 2023 results call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session.

If you wish to ask a question, you'll need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr. Charlie Youakim, chairman and CEO. Please go ahead.

Charlie Youakim: Good morning everyone, or to those joining us from our home here in the US, good evening and welcome to Sezzle, Inc. 2023 first quarter presentation. My name is Charlie Youakim. I'm the CEO and executive chairman of Sezzle and I will be leading the presentation today. I'm joined on the call by our CFO Karen Hartje, our President Paul Paradis and our head of Corp Dev and IR, Lee Brading.

In the first quarter, we started the year out as planned, by continuing to improve key profitability drivers such as increasing total income as a percentage of UMS, and decreasing operating expenses as a percentage of total income. Of course, these numbers don't always improve month to month or quarter to quarter, but if you look at the trend lines, you can see what we're focused on and what we're executing on.

The company continues to put a priority on profitability. We're still in a period of economic uncertainty, which has us prioritising profit over growth. That being said, we are getting more aggressive again. Back in 2022, we analysed initiatives in an almost miserly fashion looking for immediate ROI. In 2023, we've let the team know that we can extend ROI timelines and begin making more investment for the future.

This mindset should lead to more growth and better profit outcomes for future quarters and future years. I'm proud of what our team has accomplished in the first quarter with a profitable GAAP quarter, and our best quarter ever on an adjusted EBITDA basis. I think our investors should consider that statement as they value us. We just had our best quarter on an adjusted EBITDA basis, and it was a quarter that is typically not a strong one for our sector.

We have more initiatives in the works. We've been busy bees and we're excited to tell you more. I'll jump into the presentation now and tell y'all about it. If you'd like to follow along, you can find the presentation posted on the ASX website. Let's get started and keep in mind that all dollar amounts here are in USD. On slide three you can see key products that are driving results we're seeing today, Premium and Up.

When I explain Sezzle today, I like to focus on the key pillars of the organisation. Our core product is still our payments for BNPL products, no doubt about it. That product has changed the lives of millions of consumers and thousands of merchants. Our core product remains the pillar product, but as we continue to get to know the consumer, we're starting to understand themes around what's important to them.

The first is financial empowerment and that's where Up shines. We're helping consumers with their financial futures as a side product of what we're doing. We knew we had a good idea to start launching Up, we could feel it, but today we have an update to measure it and the result is impactful. For the average Up member, we're raising their credit score by 20 points in the first four months.

That's regardless of payment status with us, so you can imagine many consumers that use the product properly are doing even better than that. We plan to continue to create ways to help the consumer on their financial journeys. Second, we know consumers want more access with our payment system. This is where our Premium comes in. With Premium, we give consumers access to premier retail brands and they love us for it.

We want to continue increasing access for consumers, which is where our Anywhere Card comes into play. We expect Anywhere to become yet another product from Sezzle, that should create financial tailwinds just like Up and Premium have already. We have found that both Premium and Up and like the Anywhere, enhance engagement and retention of our consumers. It's because we're giving them what they want.

You can see that played out on slide four with our consumer reviews. We monitor these consumer reviews closely. We have launched a number of new products since early 2022, and the worst thing that can happen is disappointing or disenfranchising our existing customers with those new products, especially the ones who already loved us. But as shown here, we continue to excel at giving consumers what they want, even after our new product launches.

We have great reviews across all the ecosystems we operate in. We're scoring well because we're building the products that our consumers want and need. If you move ahead to slide five, we start to get into the numbers and we definitely see some dramatically better numbers here. It really shows what a year of consistent execution in the right direction can do. Total income, up over 25% year-on-year to just shy of $35 million for the quarter.

GAAP net income, you can't even put a percentage on that one or at least one that's meaningful. We went from losing $28 million, to making $1.7 million in the quarter. Our unit economics, what a great result here. We changed from a slim margin to a large one, moving from 0.8% net transaction margin to a 5.8% net transaction margin, all of the percentage of payment volumes through our systems.

The next set shows a bit of the picture of how we got there. We added income from other sources. Merchant processing fees are down as a percentage of total income because we grew our top line from other business initiatives such as Premium. Finally, we're doing all this great work with a smaller, leaner team. Our decision in 2022 to focus on North America is still paying dividends.

On slides seven and eight, we wanted to show you all our first quarter results across a number of performance metrics over a three-year period. There are a few items to talk about here. The most important in my opinion, is what's going on with our unit economics and our efficiency. We turned $34.7 million in total income into $21.4 million of gross profit. That's a fantastic conversion percentage, with 62% of top line converting into our gross profit.

This is why I keep talking about operational leverage. With that level of efficiency, we have the potential to put up some large net income numbers by focusing on top line growth, while keeping our team size relatively flat. As we get into the second half of the year, I think we'll start to demonstrate the strength of that leverage. The only metrics to drop in our scorecard are our active consumer and active merchant numbers on slide eight.

We are losing micro merchants and in turn, some active consumers as we make the trade-off from growth to profitability. One key driver of that was our implementation of a merchant fee, if the merchant does not hit a minimum monthly cost in volume. We lost micro merchants that were not willing to pay that fee, but as you can see from our numbers, merchants that bought at a nominal fee don't correlate with merchants that drive volumes and income.

The more good news in the numbers here are around engagement. We continue to drive repeat usage higher, and we also continue to create more of the volume out of our own ecosystem. With marketplace volumes rising to 29.5% of total volume, this shift is great for the company because our importance to merchants continues to rise, as we drive more and more volume directly to them.

All in all, we're very pleased with results in the scorecard. I'll now hand the presentation over to Karen Hartje, who will walk through some of the financial details. Karen?

Karen Hartje: Thanks, Charlie, and hello to all. Before we dive in, just a reminder that our first quarter results are unaudited and presented in US dollars. Starting with slide nine in the bottom chart, you can see the first quarter '23 UMS totaled $369.8 million, down from $450.5 million in first quarter '22. The year-over-year decrease reflects the 2022 strategic initiatives, including credit risk improvements related to the profit machine learning model, as well as renegotiating with and/or offboarding unprofitable merchants.

While underlying merchant sales declined, first quarter 2023 total income increased by 25.5% to $34.7 million from $27.6 million in the first quarter 2022. On a quarterly basis, total income as a percentage of UMS increased to 9.4% in first quarter '23, representing a record high compared with 8.5% last quarter and 6.1% in the same quarter last year. Consumer engagement remains strong as repeat usage increased to 94.4% in first quarter '23, up 188 basis points from the same quarter a year ago.

On slide 10, you can see that first quarter '23 transaction expense totaled $8.2 million or 2.2% of UMS, compared with $11.8 million or 2.6% of UMS in first quarter '22. Transaction expenses comprised primarily of payment processing costs, and these costs as a percent of UMS decreased because of our payment strategies to incent customers to choose ACH as their primary payment option. Additionally, we are seeing the benefit of favourable renegotiated terms with network partners, as well as the benefit of pay in full as a payment option for consumers at the point of sale.

On slide 11, you'll see the first quarter provision for credit losses totaled $1.7 million or 0.5% of UMS. In addition to continuous improvement in underwriting driven by the profit machine learning model, receivables originated in 2022 performed better than expected, resulting as a benefit recognised during first quarter '23. We expect that a pursuit of top line growth in 2023 will cause an increase in the provision for credit losses, and we plan to manage this marginal uptick through the profit model.

On slide 12, you can see quarterly total income less transaction related costs that include transaction expense, provision for credit losses and net interest expense, reached a new record high of $21.4 million in first quarter '23, 5.6 times the $3.8 million from first quarter '22. Similarly, our unit economic margin measured against either UMS or total income, represented new quarterly highs of 5.8% and 61.6% respectively. The positive performance was driven by revenue and cost initiatives implemented in 2022.

Most significantly, the launch of Sezzle Premium and improved consumer underwriting. With stronger unit economics, we are better positioned as we pursue growth opportunities this year. On slide 13, while incomes less transaction related costs improved year over year, so did non-transaction related operating expenses. First quarter '23 non-transaction related operating expenses decreased by 38.7% to $19.3 million over the same period last year, with improvements across the board from third-party tech and data, to marketing, to personnel.

As a percentage of total income, the ratio was more than cut in half from 114% in first quarter '22 to 55.7% in first quarter '23. Last year, $4.4 million of professional fees associated with the proposed and ultimately terminated ZIP merger were recognised in the first quarter. As we pursue growth opportunities and implement our next round of initiatives, we expect non-transaction related operating expenses to increase modestly.

On slide 14, fourth quarter GAAP net income was $1.7 million, drawing a striking comparison to the $28 million net loss in first quarter '22. This is the third consecutive quarter that we have delivered positive GAAP net income. On an adjusted EBITDA basis, a non-GAAP measure, we reported $8.3 million for first quarter '23, compared with negative $17.8 million in first quarter '22 and positive $7 million last quarter.

You see the trend moving from negative to positive driven by our key 2022 initiatives, including enhanced underwriting and the growth of our subscription premium product, Sezzle Premium. On slide 15, at the end of the first quarter of '23, we had total cash of $60.6 million, comprised of $59 million in unrestricted cash and $1.5 million in restricted cash. The first quarter '23 reduction in total cash from year-end, was driven by the pay down on our line of credit and decrease in merchant accounts payable.

We had $59.8 million drawn on our line of credit as of March 31st, 2023, compared with $65 million at year-end. At March 31st, we had $84.8 million in net notes receivables and $65.3 million in merchant accounts payable of which $51.3 million was attributable to the merchant interest programme. Given our positive operational performance and healthy liquidity position, we are comfortable with our current capital structure. Now, I will pass it back to Charlie to close out the presentation.

Charlie Youakim: Thanks, Karen. The last part of the presentation is just a quick update on April and our initiatives. First, April. If you can, please take a look at slide 17 for that result. For April, total income and net income numbers were relatively subdued as volumes were slightly down from March. And unfortunately the operational leverage sensitivity works both ways. If volumes drop, we lose strong rates on gross profit and our OpEx stays flat.

We basically had a breakeven net income, but our adjusted EBITDA still comes in quite strong at $2.1 million. That $2.1 million removes stock comp and interest expense for those out there. The part of the result that does stand out this year is the year-on-year look at the numbers. We're significantly better at running this business year-on-year when we compare the results to last year.

We also continue to attract more users into Premium, which stands at 155,000 subscribers. Premium is now a major part of our business less than a year from its launch. On slide 18, we wanted to remind you that we still have plans to add to the bottom line, as we work our way through the remaining months in 2023. We believe that our admissions will add an additional $10 million in net income on an annualised basis through three key drivers.

First, the launch of an Anywhere Card, formally the Flex Card. By giving our customers more access to use our systems where they want to use it, we believe that our revenue, income and engagement numbers will continue to grow. Second, through further monetization of our marketplace channel, we continue to increase engagement in the app and we're doing it in a win-win sort of way.

We keep on adding merchant deals and discounts and attractive affiliate relationships to that ecosystem, that lead to happier customers and additional income. Finally, through a bank partnership that will unlock more income and open up even more product launches for the company in the second half of the year. We'll have more details as it unfolds, but for now we're leaving it vague on purpose for competitive reasons.

On page 19, we want to give a quick update on the corporate exchange side of the house. The first is the for US removal. This removal allows US citizens to buy federal shares on the ASX, which will allow for more demand from our home market where our product is present. Next is our NASDAQ listing, which also ties to the reverse stock split. Due to NASDAQ listing rules, we have to have a stock price above $4 US to list with NASDAQ.

Based on our own research and discussions we had with equity capital market staff for the United States, we targeted a post split price in the double digits. Thus, we decided on a 38 to one reverse stock split. We've also made good progress with FTC in that fact so far this, so we think we can go live with NASDAQ before the end of the quarter. We're definitely excited about that. Not many companies get to ring the bell on the Exchange and now we get to do it twice.

Well, that's all for the quarterly updates. We hope you enjoy the monthly updates. We love the cadence and plan to continue to do it for the foreseeable future to keep you updated with our continued progress as we grow Sezzle. Thank you. I'll now have it back to the moderator for Q&A.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two.

If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Phil Chippendale from Ordman App. Please go ahead.

Phil Chippendale: Hi, Charlie and team, thanks for your time. My first question, just looking at slide 18 and these FY23 initiatives that you've outlined.

I'd just like to unpack a couple of those. Firstly, just on the Anywhere Card, can you just run through the revenue model here, please?

Charlie Youakim: Yeah. Good to hear from you, Phil. The first thing basically with Anywhere Card, it's a card that'll be a subscription model. The initial launch of it, it'll be a slightly higher price point than Premium.

What that'll allow the customer to do is basically tap the card that's present in our mobile app anywhere they want to use it, so the revenue model consists of subscription as well as interchange revenue. Those are the core drivers of the initial launch of that product.

Phil Chippendale: Okay, great. Thanks. I'm just turning to the bank partnership, you sound like you're remaining tight-lipped on the details there, but perhaps you could talk to us or just give us a sense of how far advanced those discussions are.

It sounds like you've identified at least one party that you're potentially talking to and that this is a reasonably developed discussion so far.

Charlie Youakim: Yeah. We definitely have progress with the relationship. We're not talking about plans, or we are talking about plans, but they're underway. I don't know if I can give any more details about how far along.

But we do expect it to be a big part of the drivers of that $10 million in net income. So to get that done, we're going to have to complete that in the near term for that to have additional impact on the second half.

Phil Chippendale: Okay, thanks. I suppose just in terms of that breakdown and contribution to the 10 mill across the three different categories that you've identified, you just made a comment there that the partnership would be a significant component of that 10 mill.

Should we think of it as being, is it roughly a third, a third, a third, or perhaps you could just draw us to where the most amount of value's going to be recognised here?

Charlie Youakim: I think probably more towards the Anywhere Card and bank partnership where the weightings are. It's probably not a third or third or third.

I would say the top and bottom items are probably the bigger drivers, but again, these are products that are not necessarily launched. Those are more of an estimate at this point.

Phil Chippendale: Okay, thanks. Just touching on slide 11 and the credit losses, this might be a question more for Karen. The first quarter '23 figure of 0.5% was an extremely low number.

You indicated in your discussion earlier, that you'd expect that to rise over the balance of calendar '23. Have you got a range in mind where you think your business is optimally placed to pursue some revenue growth, whilst keeping those bad debts under control?

Charlie Youakim: Karen, do you want to take that?

Karen Hartje: Sure. Without putting a forecast out there, I would say that we expect a provision for credit losses to come in better than what we saw last year, and I think we ended the year around 1.8%.

Phil Chippendale: Okay, great. Thanks. Karen, maybe while you got the floor again, and this is the last question from me is just looking at the non-transaction related operating expenses.

There's a nice chart on slide 13, we saw a slight uptick into the first quarter of '23 to $19.3 million. Is it fair to assume, do you think that you are perhaps past the low point in that OpEx?

Karen Hartje: Phil, that could be a fair assumption. I would also say that in first quarter of '23 or in the first quarter, we always have higher professional services expenses because of our annual audit. So it's kind of the seasonality of the first quarter and then we are adding a few staff positions.

Phil Chippendale: Okay, thank you. Appreciate it.

Charlie Youakim: A little further colour on that one, I think like Karen said, it could bounce around a bit, but our goal is to keep relatively flat this year.

If we start to have better than expected results, then we'll start to hit on the gas a little bit more, which means growing the team size, but I would still say it's relatively flat.

Phil Chippendale: Okay. Thanks, guys. That's all from me.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced.

We'll pause for any further questions to register. There are no further questions at this time. I'll now hand back to Mr. Youakim for closing remarks.

Charlie Youakim: Thank you. In closing, I just want to send out another shout out to the Sezzle team. We continue to do a great job in executing on our plans and the results are coming through.

I'm excited to see where we end the year. We've got some lofty ambitions, but I think we've also got a team to match. Thank you and have a great day.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]