

Sezzle, Inc.,

First Quarter 2026 Earnings Call

Wednesday, May 6, 2026, 5:00 PM Eastern

CORPORATE PARTICIPANTS

Charlie Youakim - *Executive Chairman, Chief Executive Officer*

Lee Brading - *Chief Financial Officer*

PRESENTATION

Operator

Good afternoon, and welcome to Sezzle's First Quarter 2026 Earnings 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. To ask a question, you may press "*" then "1" on a touch-tone phone. To withdraw your question, please press "*" then "2". Please note, this event is being recorded.

I would now like to turn the conference over to Charlie Youakim, CEO and Executive Chairman of Sezzle. Please go ahead.

Charlie Youakim

Thank you, good afternoon, and welcome to Sezzle's first quarter 2026 earnings call. I'm Charlie Youakim, CEO and Executive Chairman of Sezzle. I'm joined today by our CFO, Lee Brading, and my Co-founder and company President, Paul Paradis.

In conjunction with this conference call, we filed our earnings announcement with the SEC and posted it along with our earnings presentation on our investor website at sezzle.com. To retrieve the documents, please go to the investor relations section of the website. 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.

Before diving into the quarter, I want to start by touching on the big picture for 2026. We believe it is going to be an exciting year for Sezzle. 2025 was about enhancing our current consumer ecosystem. We improved the app experience, expanded engagement features, leaned back into higher-value consumers, and continue to give our users more reasons to come back to Sezzle. But in 2026, we are pushing that strategy further. We are moving beyond being a product consumers' think about only at checkout.

Our ambition is to serve our consumers more broadly in their everyday lives and in the way they manage everyday spending. That means continuing to build around payments, but also expanding into areas like deposit accounts, card products, enhanced lending options, our recently launched Sezzle Mobile Plan, and more. The goal is simple. Create more value for the consumer, create more reasons to engage with Sezzle, and over time, make Sezzle a critical part of our consumers' daily lives.

The strategy is working. In the first quarter, we delivered strong growth, strong profitability, and improved engagement across the platform, and we are raising our full-year guidance as a result. We are still very early in what Sezzle can become for the value-focused consumer. With that, let's dive in.

The first quarter followed a similar and important pattern to the first quarter of last year. Better than expected credit performance helped drive strong margins and bottom-line results. The strength in repayment trends also gave confidence to approve more volume while staying disciplined on risk, helping drive GMV that nearly matched the fourth quarter holiday period. We also saw the benefits of the investments we made throughout 2025 to create a more engaging product ecosystem.

Average quarterly purchase frequency increased by a full purchase across the consumer base, reaching 7.1 times in the quarter compared to 6.1 times in the first quarter of last year. That's a meaningful increase, and it tells us our consumers are coming back to Sezzle more often and finding more ways to use us. Those factors helped drive the results you see on slide three. GMV grew 37.3% year-over-year. Total revenue grew 29.2%, and our gross margins reached 74% of total revenue. We also generated \$51.3 million of net income, representing a 37.9% profit margin and \$71.1 million of adjusted EBITDA, representing a 52.5% adjusted EBITDA margin.

Given the strength in the first quarter and the growing engagement we're seeing across the platform, we are increasing our full year 2026 guidance across the board. We are raising total revenue growth guidance from 25% to 30% to a new range of 30% to 35%. We are also increasing adjusted net income guidance by \$10 million to \$180 million and raising adjusted EPS guidance to \$5.10 from \$4.70 with some benefit from repurchase activity in the first quarter. We will provide more detail on guidance later in the call, but overall, this reflects our confidence in the momentum of the business.

A key factor in the recent growth of our business has been the payoff of our reinvestment and refocus on our subscribers, our highest LTV users on the platform, which you'll see depicted on slide four. Our investments continue to pay off in the first quarter, with total subscribers increasing by 44,000 to 714,000. The overall total mods sequential decrease is due to the decrease in monthly on-demand users, a drop which reflects the seasonality of our platform from the busy holiday shopping period to the lower activity we see in the quarter after, along with the de-emphasis, our renewed focus on our subscribers.

Turning to slide five, much of that subscriber momentum traces back to the continued investment we are making in marketing. Since we began leaning harder into this effort in late 2024, we have tested a number of campaigns, funnels, and pathways to reach new consumers. Like most things at Sezzle, there's been trial and error along the way, but I think it's clear that we are starting to catch our stride in finding the most effective ways to win subscribers and drive greater engagement across the consumer base. The best part is that we have been able to push spending higher while still maintaining attractive returns.

Marketing spend increased again in the first quarter, but we continue to see a payback period of less than six months. That gives us the confidence to keep investing where we are seeing performance. To be clear, the goal is not just to acquire any user at any cost. The goal is to acquire and retain consumers with the highest lifetime values, the ones who transact more frequently, demonstrate stronger loyalty, and give us more opportunities to create value over time. In practice, that means subscribers, repeat users, and consumers who engage across multiple parts of the Sezzle ecosystem. The earn tab is a great example of how our product and marketing strategies reinforce each other.

Since launching in June 2025, the earn tab has generated 4.8 million visits, and consumers show a 55% increase in BNPL conversion within 30 days after their first Earn tab activity. This is exactly the type of engagement loop we want built. That brings us to slide six. Pay in 4 has been the foundation of the business, but consumers are asking for more. More utility and more ways to use Sezzle beyond a single checkout moment.

In the first quarter and shortly after quarter end, we made progress on several fronts. We expanded short-term installment optionality with Pay in 5, launched an enhanced long-term lending capability across the entire BNPL product suite, introduced the virtual card in Canada

with select integrated merchants, and launched the Sezzle Mobile plan on AT&T's network with an unlimited wireless plan starting at \$29.99 for Sezzle Anywhere members. Each of these products has slightly different use cases, but the strategic theme is the same. Expand what a Sezzle relationship can do for the consumer.

Turning to the next slide, AI continues to be a major focus across Sezzle. We are not treating AI as a side project or a small productivity experiment. We are embedding it into how we build products, support consumers, analyze data, and operate the business.

On the consumer side, we recently launched our AI support chatbot, and it's already resolving approximately 60% to 70% of the chats without escalation. That improves speed for the consumer while allowing our support organization to handle greater volume with the same disciplined cost structure. We are also testing our AI shopping assistant, which is driving stronger click-to-order conversion and helping consumers find the right products with less friction.

Internally, we're using AI everywhere in the company to improve efficiencies in automations. We're using it to help analyze chargebacks, improve business intelligence, increase support quality, improve access to company data, and speed up engineering workflows. Taken together, these efforts do three things. Improve the consumer experience, increase output across the company, and scale the business while keeping expense growth well below revenue growth. All of this points to a broader vision, which the next slide lays out.

Sezzle started with Pay in 4, but we are no longer just a Pay in 4 company. We are building an all-in-one services platform for the value-focused consumer. The strategic goal is to make Sezzle more useful in more moments. The more value we provide, the more reasons consumers have to come back. That drives engagement, supports retention, and strengthens the consumer relationship over time.

We still have a lot ahead of us, including products like bank accounts and greater post-purchase split capabilities, among other ideations, and overall, the real test of this strategy is engagement. If the product ecosystem is working, we should see consumers using Sezzle more often across more merchants and across more use cases. That's exactly what we saw in the first quarter, as seen on slides 9 and 10.

In the first two boxes, mods and quarterly purchase frequency prove out the ROI across products in marketing. Even the sequential increase in quarterly purchase frequency, seen on slide 10, jumped to a whole new level, reaching a half purchase more than our busiest quarter of the year. To me, all of these metrics you see on slides 9 and 10 are a clear sign that we are moving in the right direction. We are still early, but the flywheel is getting stronger. And with that, I'll turn it over to Lee.

Lee Brading

Thanks, Charlie, and good evening to everyone joining us. I will start on slide 11. Before getting into the details, I want to highlight the seasonality in our business. From a revenue yield standpoint, which is simply total revenue divided by GMV, Q1 is typically the peak of a fiscal year, as some payments from Q4's holiday season spill over into Q1. The quarter is also typically the best performing quarter in terms of our provision for credit losses as a percentage of GMV, because our consumers generally benefit from tax refunds at the start of the year, thus leading to better loss rates in Q1. As a result, Q1 is usually the best quarter in terms of

margins. While we would love to just annualize a unit economic margin of 74%, we can't. And if you look back to last year's results, you will recognize that dynamic.

Even though we had a tough year-over-year comp this quarter, you can see the strong momentum in our business as we reached all-time highs in adjusted EBITDA margin and total revenue, less transaction-related costs, as a percent of total revenue. As noted earlier by Charlie, our marketing spend more than doubled year-over-year in the quarter.

Nonetheless, we were able to leverage non-transaction-related operating expenses by 30 basis points year-over-year. Top-line growth and leveraging our non-transaction-related OPEX combined with strong unit economics resulted in net income outpacing total revenue for the quarter.

For those playing the rule of 40 game at home, which we measure as revenue growth plus EBITDA margin, we exceeded a score of 80 in Q1. On slide 12, you can see the strong momentum in our business as Q1 GMV of \$1.1 billion nearly surpassed Q4's holiday season GMV of \$1.2 billion. Sequentially, our revenue yield rose to 12.2% from 11.2% due to seasonality, which I addressed in my earlier remarks. Year-over-year, however, revenue yield declined 80 basis points due to the mix in merchant and virtual card activity, plus a reduction in the number of consumer fees charged.

Slides 13 through 15 dive into our unit economics, which are powering our bottom-line results. As a reminder, transaction-related costs is a non-GAAP measure that combines transaction expense, provision for credit losses, and net interest expense. You might hear us refer to gross margin or net transaction margin, which is total revenue, less transaction-related costs.

Let's jump to slide 14 and review the three cost components of transaction-related costs. Each of the three components had a favorable year-over-year move. Transaction expense, consisting mostly of payment processing costs, continues to experience the benefits of us driving consumer adoption towards lower-cost payment channels such as ACH. Meanwhile, our provision for credit losses fell year-over-year because of the better-than-expected performance in the current year's portfolio, as well as prior year vintages. Further, we are not seeing any unusual strains on the consumer, and as noted earlier, seasonally, this is our best quarter for provisioning for credit losses. But the story is not simply about consumers doing better than expected.

Our team continues to enhance their toolkit and decisioning. Our underwriting team is exploring new data sources, accelerating model iterations, and utilizing new machine-learning techniques in collections. All of these add up to improvement as we scrutinize every lever of our underwriting inputs. Lastly, net interest expense remained low at 0.3% of GMV. There is further room for improvement here as we move forward with refinancing our current credit facility, which matures next April.

Slides 13 and 14 demonstrate our hyper-focus on unit economics and its components. It is evident how it all comes together on slide 15. We continue to find ways to improve our economic model and not sacrifice growth. We recognize the importance of profitability as it allows us to pursue strategic initiatives that will further propel the business. As we have stated in the past, our goal is to drive our business in profitability with revenue less transaction-related costs in the 55% to 65% range.

Our hyper-focus on cost does not stop at the unit economic line. It extends to our non-transaction-related operating expenses too, as shown on slide 16. Even as we more than doubled marketing spend year-over-year, we continue to generate operating leverage across the business, particularly in personnel costs. While our team has grown, we have scaled thoughtfully and remain disciplined in where we add resources. Looking ahead, we expect to continue leveraging our operating expense base while still investing in the areas that are delivering attractive returns.

We did incur minor costs related to our corporate strategic projects during the quarter. Our antitrust suit is currently ongoing and something we cannot elaborate further on. We are making progress on the banking charter process and have moved beyond the discovery phase as we are now actively hiring executives and non-executive directors. We anticipate submitting our application mid-2026. We recognize this process is long and not guaranteed, but we believe it is an important strategic opportunity to pursue.

Sezzle's significant momentum is evident in our bottom-line results shown on slide 17. Driven by a healthy unit economic story and leveraging our non-transaction related OpEx, net income outpaced our top-line growth. For the quarter, GAAP net income reached \$51.3 million, representing a 37.9% profit margin. Adjusted net income was \$50 million, and Adjusted EBITDA was \$71.1 million, a 52.5% margin. Each of these reflects an all-time high for Sezzle.

Our liquidity remains strong, as shown on slide 18, as we ended the quarter with \$147.4 million in cash, including \$26.9 million in restricted cash. In addition, we had \$69 million in availability under our line of credit. Working capital did build relative to previous quarters due to the launch of Pay in 5 in January, but as noted, we have plenty of liquidity. The strength of our liquidity and cash flow generation is further exemplified by us repurchasing \$24.8 million worth of common stock during the quarter, which will be disclosed in our 10-Q that will be available tomorrow.

On slide 19, we update our guidance. We are raising our guidance across the board. We now expect revenue growth of 30% to 35%, Adjusted Net Income of \$180 million, and Adjusted Net Income per share of \$5.10.

Before passing the call over to the operator for Q&A, I want to remind investors of a few items. First, we target total revenue less transaction-related costs margin of 55% to 65%, and within this margin calculation, we target a provision for credit losses in the 2.5% to 3% of GMV range. Second, we expect to continue to leverage our non-transaction-related OpEx as we anticipate growth in the top line to outpace our spending. Third, do not forget about the seasonality in our business that I discussed earlier in the call. And last, this guidance does not reflect any projections for new products currently in development. With that, I would like to turn the call over to the operator for Q&A.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press "*" then "1" on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time, your question has been addressed and you would like to withdraw your question, please press "*" then "2." At this time, we will pause momentarily to assemble our roster.

The first question comes from Mike Grondahl with Northland. Please go ahead.

Mike Grondahl

Hey guys, congrats on the strong quarter and progress. I'm looking at slide six, Pay in 5, Virtual Card in Canada, the mobile plan, and enhanced long-term lending. Charlie, if you had to project out a year or guess, what do you think going to be the most important out of those four, or could you kind of rank them?

Charlie Youakim

Yeah, I'd say Pay in 5. I mean, just because it's already proven to have results for us. I know many of the people on the call are not our target customer, but our target customer, you know, Middle America, value-seeking consumers, we surveyed, we asked, and even though Pay in 5 seems like just an incremental change over Pay in 4, there was a big demand among our consumer base for that incremental change, and we've seen it in the implementation.

The other products, Virtual Card in Canada, it's not quite fully launched. Our goal with that Virtual Card in Canada product is to get that to truly anywhere. You can see in the subscript, it's closed-end at the moment. As soon as that goes live, I would say that also has some pretty serious potential, but it's also in Canada, which is, you know, 10% of our volume. So, it's going to help us, but it's 10% of the potential volume.

And then Sezzle Mobile Plan and enhanced long-term lending, they're just really early. Mobile Plan is not really designed to drive revenue growth margin, more designed to increase retention and deliver value to consumers, so financially not going to be delivering massive numbers, I think, at any point for investors to look at. And then enhanced long-term lending, that's always been, you know, more of a nice sidecar for us as a product. We've had that in our history, we're just making it better, and it's also never been a massive driver in results in terms of financial results, at least. But a product some consumers do like to have, yeah.

Mike Grondahl

Got it. And then maybe just a question on marketing. What channels or where are you getting sort of the best returns there, and then what's kind of your outlook on marketing spend the rest of the year?

Charlie Youakim

Well, you know, marketing spend, we still have the Timberwolves. We've got that deal going here another year, and by the way, go Timberwolves. I really hope they beat the Spurs tonight. Planning on it. But we want to see them in the championship. But yeah, we've got the Timberwolves sponsorship going, but that's more of, like, you know, brand awareness type of play. The actual channels that deliver the results for us are advertising channels, and, you know, it's really the usual suspects. Web ads, social media ads, in-app ad networks, you know, we're pushing more into connected TV, basically like the YouTubes of the world, you know, connected to those ads. And basically just testing across the board, and you know, wherever we see better results, we just keep on pumping a little bit more. And I'd say if you look at our results, you can basically see like, just, we keep on feathering on the marketing spend as the results keep on playing up.

Mike Grondahl

Yeah. That's fair. That's very helpful. Okay. Thank you.

Lee Brading

And Mike, I'll just add a little more color too on that marketing spend. Just if you look from a, you know, year-over-year in absolute terms, it's definitely up, but if you think about it also looking as a percent of our revenue, you know, it's fairly reasonable and actually slightly lower than where it was if you look at Q2 last year. So we do have the ability to leverage that spend.

Mike Grondahl

Perfect. Okay. Thank you.

Operator

The next question comes from Kyle Peterson with Needham. Please go ahead.

Kyle Peterson

Great. Good afternoon, guys. Thanks for taking the questions and really nice results. I wanted to start out on, you know, the credit costs. You know, appreciate the commentary and reminders on the seasonality, but I guess just looking at it, the losses as a percentage of GMV were still, you know, better than expected and down year-on-year. So, I guess, like, how should we think about some of the puts and takes and what your expectations are of getting back to that 2.5 to 3.5 range, especially as like Pay in 5 and some of these other product's scale? Just want to see like what's conservative versus mix and you know, some potential upside to that number.

Charlie Youakim

Well, thanks, Kyle. Thanks for the question. I'll let Lee follow up. Lee if you think I missed any here, but you know, part of the thing to consider when you look at our quarterly results is part of the result is actually reconciliation of the...because it's a provision. It's reconciliation of the prior quarter. So, every quarter that we post is an estimation of what the loans for that quarter will be in terms of their estimated loss rates. And so, we've basically had some overestimation in prior quarter that leaks in or underestimations. In this case, we had overestimation leaked into the first quarter, affecting that a little bit to the downside. So, always I think trend lines on the provision are a really good idea because of the fact that we have to estimate. And it usually is two quarters worth, and then once we've got first quarter posted, it's basically washed out the fourth quarter estimation. But that's always something to consider. We also have seasonality.

But I think we're still spot, you know, the plan is still to see, you know, 2.5 to 3 for the provision for the year. Part of that is because we're expanding our marketing spend. Marketing spend increases new users; new users have higher provisions. I would say Pay in 5, one of the tradeoffs with Pay in 5 is that it does just logically have a slightly higher provision inherent to the idea, but the way we've designed the product mix, we think we account for that in terms of like a matching principle on potentially, you know, the fees that are collected from some of the failures. So, it almost like financially plays out as a wash, but where it doesn't play out as a wash is that it could potentially increase provision a bit. So I think we're comfortable with what we projected. Every time we provision, it's actual provision and actual pure estimation. But again, estimations are almost 100% guaranteed to be incorrect one way or the other. Lee, anything to add?

Lee Brading

I'd just reemphasize what you said. I think Q1 is, I don't want to say an anomaly, but it is the, you know, the easier or tougher comp, I guess so to speak, from a standpoint of collections and in the provision standpoint. So, I get where you guys on the outside looking in, looking at the challenge, going, "Wow, it's such a great quarter, would love to annualize this." But you know,

as the year progresses, we get a little more aggressive too from the new, as Charlie mentioned, bringing in new users. And not to mention that Pay in 5 is just getting started, and we would expect to have probably initially a little higher loss rates on that as well, so I think our....we're very comfortable with our 2.5 to 3.

Kyle Peterson

Okay, great. That's really helpful color. And then as a follow-up, I want to ask about, you know, the partnership you guys have or announced with Pagaya. I guess from the sound of it, I guess, is this, you know, kind of a way that you guys can get into some more longer-term lending and, you know, how will, you know, this partnership scale and, you know, be funded? Like, are you guys contributing anything there? I guess if not, like, what's your kind of path to monetization as that scales.

Lee Brading

Yes, good question. You know, in terms of monetization, it's really just, you know, a take rate on the almost like an MDR. You know, we are not sharing in the risk on that product, although we are trying to help Pagaya with their results as much as possible because they are a partner of ours. But it's really just a, like a skim off the volume that goes through that comes to us for running the product through our platform. Then for the consumer value, I would say it's primarily to help the company win merchant deals. That's primarily why we have got the product in there because there are a number of merchants that have average order values that span a larger range than our core products, core, sweet spot, which is like, you know, more \$100 or maybe \$80-\$200 for a sweet spot.

And when a merchant has AOVs that rise above that, like a general merchandiser, they want to see that you have the capability to help them on some bigger ticket items. So, by having this partnership, it helps our sales team win some more of those merchant deals. But then our plans are to also mix this into some of our D2C products as well. And that's more about just providing as much value as we can to our consumer through our product mix. We like staying in the shorter-term products, which is why we've always partnered on longer term products. We like the nature of our product and the terms, et cetera. Just all the financial metrics around it. We are very comfortable with it, and we think, you know, give that longer term product to people that specialize in it, and Pagaya is one of those partners.

Kyle Peterson

Great. Thanks for all the color and nice quarter.

Lee Brading

Thank you.

Operator

The next question comes from Hal Goetsch with B. Riley Securities. Please go ahead.

Hal Goetsch

Hey. Thanks guys. Could you give us some color on any, you know, middle market merchants, enterprise customers? Are you generally just seeing broad new merchants coming from subscribers who are taking their virtual cards and their anywhere subscriptions to many more merchants? Could you give us any color on that?

Charlie Youakim

Yes, we are seeing, you know, basically a continued trend on the. I mean, our business is becoming more and more direct to consumer, more and more open loop. I think that's where the trend is in our entire industry, which I think actually mimics, you know, none of us are probably old enough to know the actual of what happened in the credit card industry. But basically, you know, from my understanding of reading back to the credit card industry days, you know, a lot of things started closed loop and then they moved to open loop. I think the BNPL space is going to do the same thing. We all started closed loop, slowly realizing customers love the product so much they want to use it everywhere, which leads to open loop.

And so I think what we are seeing is our consumers using us in more and more just general-purpose locations, like more shopping with grocery, more shopping with general merchandisers. We are seeing more and more and more of that, which matches that ideology or the want to use the product in more places. But our sales team is still out there, and we have new product, we have new services, new features that helps them land more enterprise merchants because it's probably going take five to ten years for this transition to open loop to completely play out. In the meantime, we can still deliver a lot of value to merchants on the spot.

And I think, you know, if you look at the credit card industry, it's always stayed, there's always been some sort of closed loop aspect. You still have private label products out there with the credit card ecosystems. So I think we will continue to have the sales channel on merchant. We have got on-demand now, which can, you know, we can offer merchants that have thinner margins, the ability to pass on some of the fees to consumer. That's helping us win some more deals. We have got the Pagaya launch that just occurred. That's going to help the sales team win more deals. And so I think we are going have this as a part of our ecosystem and one that generates, you know, even more returns for us. So it's an area of the business we are going keep on growing. It's probably not going be growing as fast as the D2C because we are just seeing incredible growth on that right now.

Hal Goetsch

Okay.

Lee Brading

I would add too, Charlie, that we view merchants primarily as a customer acquisition channel. You know, as we have pushed more into marketing channels, as Charlie, you know, just mentioned on this call, social advertising, app store advertising, merchants are a great channel for us to acquire new customers in, and that's why we are going to continue selling into those merchants, but it's becoming a less important part of our overall business.

Hal Goetsch

Terrific. On the marketing and advertising, you know, nice commitment to spending growth year-over-year and sequentially from Q1 of last year to Q4. Would you expect the level of dollar spending to move incrementally higher from here or flattish quarter-over-quarter? What are your thoughts on the spending commitment in marketing this year?

Lee Brading

I think we expect it to continue to rise quarter on quarter because the team is finding more and more places to place ads. And our mandate to them or our guidance to them is, if you can find places to get the return we are looking for, we want you to place the ads. So their job is to go out hunting for more and more places to place the ads where they can get the return. If they can do it, we are telling them to do it.

Hal Goetsch

Excellent. The last question from me. Can you just give us your thoughts on the macro? You know, you sort of value a focused customer. You have had a pretty good amount of narrative in the news about affordability over the last six months and now this gas price spike. Just want to get your thoughts on what you're seeing real time in the business?

Lee Brading

You know, in terms of our customer base, you know, people have asked us about like macro trends. Do you guys see anything? I don't. The only thing we've ever seen in our history that I can call out in our numbers where I really have seen something is COVID, both the spike down with closures and the spike up once people got stimulus checks. Outside of that, we really don't pick up anything. I, you know, it seems like our customers are perfectly healthy to us when we look at the numbers. We are not seeing anything now. You know, I know people have brought that concern about like, you know, gas prices that really hits mid-to low-income consumers more. But you know, maybe the mid to low-income consumer just works a bit more, which is natural. Like, you know, if you realize you're pinched a little bit, you've got to go out there and work a little bit more. I don't know. I am just postulating. We are just not seeing anything.

Hal Goetsch

All right. Terrific. Thanks a lot. Good job, guys.

Lee Brading

Thanks.

Operator

The next question comes from Rayna Kumar with Oppenheimer. Please go ahead.

Anthony Cyganovich

Hi. Good evening. This is Anthony Cyganovich filling in for Rayna. Thanks for taking the question. I was just curious if you could just talk about some of the drivers of what you think might be accelerating revenue from the kind of 29% that you reported in the first quarter to that 30% to 35% range that you gave. Are you including any kind of uplift from Sezzle Mobile or Pay in 5 this year?

Charlie Youakim

Pay in 5 is included now because it's part of our existing product mix. Sezzle Mobile long-term just launched, so, that's not in anything we are projecting at this point. I think, you know, we are seeing some really nice momentum in subscriber growth. You know, you've seen the, as we reported on demand down quarter-over-quarter, some of that is, I would say a lot of that is holiday, but some of that is also our renewed emphasis on subscribers and we really like to focus on subscribers. We think it builds a, you know, rolling snowball, which helps us. So I think that probably is the, you know, primary reasons behind it. I don't know, Lee, anything else to add to that?

Lee Brading

Yes, no, I think that's spot on. The only other thing I would add is just a little bit of the choppiness maybe or seasonality with our revenue yield when we look at versus GMV. I think if you look, this quarter was a tougher comp. I think next quarter we'll have an easier comp from a revenue yield standpoint. And then I think you will see a smoothing out or a more consistent Q3, Q4, similar with Q1. In the first half of last year, we had some movement within our revenue

side. And that's where you saw the spike last year, and we were down a little bit this year, but I think you will get the smoothing out as we go through the quarters.

Anthony Cyganovich

Thanks. That's helpful. I guess as a follow-up, I am just looking at slide eight, and there's a lot of new products that are on your roadmap here. I mean, can you help us think about kind of a timeline for you to become this kind of all-in-one services platform?

And then secondarily, like are you utilizing, you know, AI at all to help you develop any of these financial tools to kind of gain a little bit more operating leverage in your business? Thanks.

Charlie Youakim

I think, you know, based on the list of items we see here, this is probably all of these items completed, launched, and scaling by the end of 2027, the ones we have outlined here. I don't know if we ever will say the end is there in terms of innovation. We have always believed that we want to keep on innovating. But I think we will have a really nice platform by the end of 2027 in terms of like, you know, much more fully featured in terms of offerings to the consumer. We will definitely have the deposit accounts in place by then. You know, secured credit card I could see potentially in that time period, but you know, we will see how things play out. You know, every time we announce products and send stuff, you know, product roadmap, we always have, you know, new conversations.

So, you know, that's why I am hesitant and I say probably because, you know, there might be things that come up in the meantime that we think are more important for the consumer. But I think over the next couple of years, I think we will, end of 2027, we will have some, a really nice product mix. And it's really interesting, your question on AI. Definitely. I mean, we have had some products thus far where the vast majority of the product development has been AI driven. I remember our product team on one of their internal calls calling out, you know, this product thus far has been 100% developed with the assistance of AI, you know, from the visualization, the screens, the flows, the plan flows to the code. You know, upwards of 80% of our code is now being developed by AI, reviewed by our team. It's incredible. And our goal, the way we view it internally, is, we are asking our team just to be more productive, you know. I know we see out there in the markets, like, I think it's...some people talk about using AI to cost cut. I think it's just such a half-glass-empty way to look at things.

I think our view is AI makes you a super-powered person. Use it. Use it to increase our product development. Instead of launching one product that's core to lift, launch three. Speed up. Allow us to be a team that looks like 4,000 instead of, you know, 500 that we have with us. So that's the way we utilize it. We are injecting it everywhere. We are basically mandating it everywhere. If you are a leader in the company that doesn't want to embrace AI, you are probably not going to be in the company much longer. That's not an issue. We already have the embrace. So, I am just saying, like, that's how much we believe in it. We believe it's a necessary product that you have to use.

Anthony Cyganovich

Great. Thanks for the color.

Operator

The next question comes from Ryan Tomasello with KBW. Please go ahead.

Ryan Tomasello

Thanks, everyone. In terms of the product pipeline, I think you have previously alluded to a cash advance product that's in the works. I was hoping you can give us an update on how that rollout was progressing. Anything you can share on engagement pricing and also on the underwriting. And particularly on the latter with underwriting, Charlie, curious if you envision an opportunity to push more into direct cash flow linked to underwriting to support that rollout. And you know, if that could eventually support the broader kind of BNPL core credit product as well. Thanks.

Charlie Youakim

Yes. We're testing a lot of different...we've seen some variations of our cash flow management product. And we've seen great engagement, which is nice. We definitely can tell the customer likes the product. Because of the regulatory environment we're in, we're very cautious about how we launch the product as well. So, the current plan is to have the product more mimic what we do with BNPL. So, it'd be like almost a Pay in 4, Pay in 5 to yourself, kind of a cash flow product. Probably limited to subscribers only is the idea, as a tool or another benefit for the...for those subscribers. And we think it'll be favorably viewed by the consumer base because of the pricing to that product. So, it'd probably be like one of the more lower cost cash management tools available to a consumer.

Albeit they have to be one of our subscribers, but that's the whole point. We want to...we want to create more and more tooling that provides more and more value to get consumers into subscription ecosystem and keep them there. And that's what we've seen from some of our testing. We've done some small-scale testing. It increases engagement, it increases retention, increases happiness. So, it's one of those products. And we plan to launch in here in the next, yes, few months. So, probably in the next three months, we'll have that product out in the market in a more serious way.

Ryan Tomasello

Great. And then sticking on the product pipeline topic with the checking product, can you just talk about the timing there and how you envision going to market with the product, any carrots that you might offer to help drive uptake, and then just elaborating on, like, the marketing investment that might be needed to support awareness and adoption. Thanks.

Charlie Youakim

Yes. We...that's another product coming in the next few months as well. Definitely by end of third quarter would be our estimation. But in terms of, like, the actual plan pitch around the product and the planned integrations, nothing yet really concrete or to speak of at this time. The whole point is we want Sezzle to be the one-stop shop for the consumer, and we'll try to figure out, give and take, customer, you give us X, we'll give you Y kind of arrangements. We think that that's the way we kind of like to mix our value to the customer, you know, provide this value to the customer if they join up for X, Y, or Z. So we don't have those nailed down, but we'll try to figure out some way to build it into the fold and create a compelling reason for consumers to join it. And by doing so, I think we're seeing deposit accounts or thinking deposit accounts are a great way to increase retention.

Ryan Tomasello

Great. Thank you, guys.

Operator

The next question comes from Hoang Nguyen with TD Cowen. Please go ahead.

Hoang Nguyen

Thank you and congratulations on the quarter. I want to ask on the revenue less transaction cost margin, since you guys have been doing so well in that over the past couple of years. And it looks like it just keeps going up. If I look at 1Q this year, I think it's up by four points versus last year. I mean, can you talk about...is there something that is making your margin, I guess, structurally higher year-over-year and maybe can you talk about some of the levers that you can continue to pull to further improve on the margin?

Charlie Youakim

Yes. I'll answer to the...some of that and pass off to Lee for more detail. But some of these things on the COGS side, they're just helped by scale. So, transaction expense, as we have more scale, we get better payment processing rates. We're also, in some ways, incentivizing consumers to move over to ACH in some ways versus card processing. So, that's been helping our transaction expense, but scale always helps there. Net interest expense, as we get scale, we have lower costs of financing available to us. We're also packing on cash. We're a cash-generative business, so we don't have to necessarily borrow as much from our line of credit, which also reduces the net interest expense. So, we've had some of that benefit.

Provision, probably a bit of a scale benefit there as well. The more, we find repeat customers have better loss rates. So, as you scale up, you have more repeat customers generally. Of course, I always think it's like a good problem if we can scale growth of users in a big way. So, that one, if we hit some of our goals, it might go the other direction if we are able to break through some finding that helps us scale users even faster. But generally, steady state, that also goes down because of our repeat user engagement. And on the top side, I think the fact that you have subscription products as the driver, that tends to create a rolling benefit for the company on the top line.

So, I think that's probably why you're seeing that. But that, as you know, as Lee mentioned a couple times, just also want to reiterate for listeners that the 74% gross margin that we basically posted here in the first quarter, don't annualize it. We want to make sure investors know the fourth quarter, first quarter, there's some seasonal elements to that. And I'll just explain it again because I think I want to make sure people understand it. The seasonal elements are mainly on the revenue side, but a little bit on the cost side with provision. As volume slows, the way we recognize costs, maybe that's the best way to say it. The way we recognize costs, we do it through provision.

So, provision, we estimate right away in the quarter what the provision will be. So, if you have a quarter like fourth quarter where volume is typically higher, steady state because of holidays, we're taking all the costs and putting them into that fourth quarter. But the revenues or the...what will be likely revenues are recognized on the payments which come into the first quarter. So, you have a typically higher volume quarter, the fourth quarter due to seasonality, with payments rolling in, which they're where the revenue is recognized into the first quarter. So, we get more revenue coming into the first quarter from the fourth quarter on a lower volume, seasonally adjusted. We almost topped our fourth quarter volume, which speaks to the growth of the company, but we still had lower volume in the first quarter than we did the fourth quarter.

So, you'll have a generally higher revenue take rate in the first quarter as well. So, we wanted that which increases your gross margin in the quarter. So, we want to make sure people, like, keep that into consideration, as they're looking at what happened this quarter. I don't know, Lee, anything else to add?

Lee Brading

Yes. Just emphasize that we generally talked about being a 55-65% area from a gross margin or revenue less transaction-related costs. And we've definitely been trending on the higher end of that...the 60-65%, I would say. And I think Charlie hit on it, but just to emphasize kind of the three key areas is on the transaction side or processing side. We have seen a move to more ACH, and we've been able to emphasize that. So, that's obviously going to help us there. Also interest expense, I do expect us to get...as I mentioned in my comments on the line of credit side, you get some improvements there as we progress through this year as we refinance our facility. So, that's to come, but I expect that to happen.

And then on the provision, it's a little bit of a wild card, but we...that it can be a big swing factor as you saw the year-over-year improvement there this quarter, which also drove that outperformance if you looked on a year-over-year basis. We aren't necessarily booking in that same kind of outperformance going forward, but that's something else to be aware of.

Hoang Nguyen

Got it. And maybe if I can throw one more in on the bank charter. I think, I mean, one of the benefits is that it could help you guys launch more products that you guys currently...I guess currently cannot launch with a bank partner. So, can you talk about the kind of products that your own bank charter would allow you guys to launch that you currently may not be able to do so with your bank partner? Thank you.

Charlie Youakim

Yes. Not necessarily. You could actually, in today's environment with banking and service partnerships, you can pretty much launch every type of product out in the financial services world. The main reasons for the bank partnership, I would say more defense from a regulatory perspective. We just think that it basically solidifies what we're doing. And there are some regulators out there in some states that are chopping away at the bank partnership model, sadly, because it's a great model, but we're well aware of it. And so, getting to the ILC or to becoming a bank helps you basically push further away from that potential of that becoming an issue. And then it does move a variable cost stream to a fixed cost stream because you basically have your fixed cost of your own bank and your staff, versus the arrangement we have with WebBank currently, where it's more of a variable, a cost percentage of our volume. So, over time, as our volumes grow, you can move to a fixed cost structure, you're going to save. So, it's more savings, more regulatory defensibility. Maybe there is some, like, benefit on the product side. Maybe you can launch things faster because your bank is more hyper-focused on what you're doing. So, when you're talking to your regulator, you don't have 19 other partners, like banking-as-a-service partners, and have to talk to the regulator about all of them. You just talk to the regulator about what you're doing. So, I could see it being faster potentially but not necessarily limiting on what you can build.

Hoang Nguyen

Got it. Thank you.

CONCLUSION**Operator**

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

Charlie Youakim

Thank you, operator. I'd like to leave with something Charlie Munger said that stuck with me. He said, "I think you should try to make your money in this world by selling other people things that are good for them." And I think that's a fair description of what we're doing at Sezzle. We're a company that thinks about this all the time. We believe our core products are much safer and less costly than existing financial products. We also go out of our way to find ways to help our consumers save money.

We're helping our customers, and that feels good. The growth, the margins, and the cash generation we walked through today are the downstream effects of getting that right. Customers who improve their financial lives come back. They refer their friends and they graduate up the platform through Sezzle Up. That's the flywheel. And it not only spins with the alignment, and it only spins with the alignment if with the consumer is real. We've got a long way to go, and the environment around us is dynamic, and we're going to keep on earning our place one consumer at a time. Finally, a big thank you to the team for another quarter of disciplined execution. And thank you to our shareholders for the trust you continue to place in us. We'll talk to you next quarter. Thanks.

Operator

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