

Sezzle, Inc.,

Second Quarter 2025 Earnings Conference  
Call

Thursday, August 07, 2025, 5:00 PM Eastern

**CORPORATE PARTICIPANTS**

**Charles Youakim** - *Executive Chairman, Chief Executive Officer*

**Karen Hartje** - *Chief Financial Officer*

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

## PRESENTATION

### Operator

Good day, and welcome to the Sezzle, Inc., Second Quarter 2025 Earnings Conference Call. All participants will be in listen-only mode. Should you need any 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 your touchtone phone, to withdraw your question, if it has been addressed, please press "\*" then "2." Please note, this event is being recorded.

I would now like to turn the conference over to Charles Youakim. Mr. Youakim, the floor is yours sir.

### Charles Youakim

Thank you. Good afternoon, everyone, and welcome to Sezzle's Second Quarter Conference Call of 2025. I'm Charlie Youakim, CEO and Executive Chairman of Sezzle. I'm joined today by our Chief Financial Officer, Karen Hartje; 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 this in our earnings presentation on our investor website on sezzle.com. To retrieve the documents, please go to the Investor Relations section of our website. There, you'll find the press release and earnings presentation. Please be advised of the cautionary note and forward-looking statements and reconciliation of GAAP to non-GAAP measures included in the presentation, which also covers our statements on today's call.

It's exciting and fun at the moment at Sezzle as we've noticed we continue to disrupt the existing payments industry. I'm sure you've noticed it just like we have, as it seems like there's an article coming out every other week in a major publication talking about the growth of BNPL and its impact on the world. Some of these publications get it and understand that this product helps consumers budget and manage their spending, and others don't, they just regurgitate the standard consumers using credit is bad mantra that's been out there since the invention of the credit card, even with the negative press, we're happy, as it means that we must be doing something right as we are upsetting the traditional norm. We are getting noticed.

With that credit mantra in mind, we do think our path somewhat mirrors the original Buy Now, Pay Later product, the credit card. Credit cards first emerged in the 1950s. Now, I imagine most of the people on this call went around then, but since the launch of credit cards, there's been a lot of public pushbacks from the media warning of reckless spending or debt traps. A number of reputable publications in the 1950s, including the New York Times, expressed public concern over plastic money leading to financial irresponsibility. Sound familiar? Nonetheless, by 1970, about 50% of US households had at least one credit card. I think that we can all agree that credit cards and their usage, despite some of their issues, are an important part of our economy.

We think BNPL will evolve into a similar story, including the pushback from the media along the way. Sezzle has certainly tapped into a need that is not being met by other traditional forms of payment. We welcome the scrutiny as we believe it will only bring to light how our products are helping consumers and how they are the responsible way to pay.

Our flexibility allows payments to be matched to budgets, which is critically important for a large segment of consumers. As a reminder, customers must be current with us or they aren't

allowed to continue to use this as a payment method. This is one of the key areas where we differ from credit cards.

We think we have stronger alignment with responsible spending than a credit card does. We actively think about reducing limits for our consumers were warranted to stop overspending. I think some credit card companies welcome a bit of overspending, as that overspending can create a revolving account.

Instead, we're active in stopping overspending, which creates incredible alignment with responsible behavior. Well, I know most of you are here to hear about our results, so let's get to it. We're pleased to be sharing our second quarter results with you all this evening, as they clearly reflect the positive momentum in our business and our industry. Our Q2 results reflect strong momentum and also signal an increase in investment for the future. We continue to push forward as a profitable growth company, which is a concept that we fully embrace.

Slide three gives a high-level snapshot of Q2, which shows our outperformance versus the industry. With a top-line growth of 76% year-over-year, gross margins of 61%, and a net income margin of 28%, we remain well ahead of the Rule of 40 and our own version, the Rule of 100, where we scored a 165 this quarter. We are also still on pace with our guidance, which has adjusted net income rising 85% year-over-year in 2025. As the saying goes, talk is cheap, and we plan to keep letting our results do the talking.

I referenced earlier our investment in the future and would like to expand on that thought on slide four. We are hyper-focused on reaching customers efficiently through our marketing efforts. Our marketing spend has been stepping up with a focus on customer acquisition and retention. For Q2, we spent \$8.8 million on marketing, compared to only \$1 million in the prior year. We don't take this lightly, as we value every dollar, but we also believe that this is the right time for this future investment, as our profitability and positive free cash flow have positioned us well to both grow and reinvest. We are still in the early stages, but we expect to see returns before the end of the year as we target a six-month payback period on our TAC.

I believe our active consumer and MODS results reflect the positive trends we are seeing, and I believe there is more to come. In prior years, our spending was more focused on merchant co-marketing, but over the last several quarters, we have shifted our marketing spend to more efficient channels. That improved efficiency will pay dividends in our future results. A key part of our strategy is to never stop innovating, especially as an industry underdog. A major part of our success has been our never-ending push to grow and expand our product offerings to consumers.

On slide four, you can see that we have launched numerous product enhancements in the last few quarters, some more successful than others, but regardless, we will not rest. Slide five is a snippet of the positive results we are seeing from our efforts. I'm extremely proud of our NPS score of 75, which is an incredibly high score for a company offering financial solutions, and actually any company, for that matter.

These NPS results are important because it means our customers love using our products and services. You can clearly see that love is translating into greater engagement in our app. As discussed in the prior slide, we have launched a variety of products and features with the goal of finding more ways to engage the consumer, and the results reflect such traction. Monthly active users rose 52% year over year, and even more exciting, the engagement from revenue-generating users increased 138%. I believe we are in the early days of monetizing app users

beyond just payments. The amounts are nominal at this point, but we believe it represents a large opportunity.

On slide six, you can see that our marketing efforts for MODS are paying off. MODS rose 14% sequentially and 62% year over year. We are continuously fine-tuning our marketing spending to maximize ROI.

Currently, we are hyper-focused on MODS. These MODS users have strong lifetime values due to the repeat and recurring nature of their interactions with Sezzle, with subscription services at the forefront of that recurring engagement. As you might guess, there are differences in profitability between on-demand, premium, and anywhere. All three have favorable economics, but lifetime values do vary. The highest lifetime values are in anywhere because the product is just so easy to use and use again. I know many of you think of us as an online payment method, but take note, 37% of anywhere orders are in-store.

This speaks to the value of the anywhere product, giving consumers access to purchase whenever and wherever they want, well, wherever Visa is. And last I checked, they're pretty much everywhere. Let's take a deeper dive on some key engagement metrics on slide seven.

We continue to experience better year-over-year engagement as our connection with the consumer continues to grow. Our yearly active consumer growth almost hit double digits for the first time in quite a while. I believe the improved growth stems from the success coming out of our marketing efforts and our product enhancements.

As I mentioned earlier, we are filling a need that is not being met by traditional payment methods. Nowhere is this more evident than our unique merchant's number. Our consumers shopped at 412,000 different merchants during the quarter. That is not an insignificant number. It is so rewarding to see that we are providing access to places that, to many, were unavailable before. Further, our purchase frequency continues to show year-over-year growth, suggesting we are gaining top-of-wallet status. And we believe this is still the early innings.

On slide eight, our purchase frequency was flat sequentially. We attribute that to the launch of on-demand, as it has shown a significant amount of growth in a very short time. Longer term, the short-term investment with on-demand users will lead to greater profitability. Our on-demand users are profitable, but just not as profitable as our premium or Anywhere subscribers. But over time, we believe that on-demand users will migrate further into our product suite and become future Anywhere enthusiasts.

Also on slide eight, again, it is great to see the pickup in active consumers. We can say now that we have \$2.9 million yearly active, and it does seem that we are on the move up with this metric as we continue to add features and services that enhance engagement. If you can't tell, I am extremely excited about our momentum as we start to see the fruits of our investments in marketing and innovation.

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

**Karen Hartje**

Thanks, Charlie, and good evening, everyone. As Charlie mentioned earlier, you'll see through our numbers that our initiatives continue to drive remarkable top-line growth, easily clearing our internal rule of 100.

Turning to slide nine, second quarter total revenue grew 76.4% year-over-year to \$98.7 million and adjusted net income nearly doubled, growing 91.8% year-over-year to \$24.4 million.

GAAP net income decreased slightly to \$27.6 million, resulting from the recognition of an outsized \$17.2 million discrete tax benefit in the second quarter of 2024, compared to a \$3.2 million discrete tax benefit in 2025. As a reminder, the prior year's discrete tax benefit was attributable to the release of our deferred tax valuation allowance due to the company's profitable trajectory.

Our margins also continue to expand with adjusted EBITDA margin and total revenue less transaction-related costs as a percentage of total revenue, improving 5.5 and 3.5 points respectively year-over-year. Lastly, despite our rapidly growing revenue and healthy margins, we still maintain strict cost discipline. Non-transaction-related operating expenses as a percentage of total revenue decreased 4.8 points year-over-year to 28.1%.

Let's move on to slide 10, which breaks out our GMV and total revenue progression. GMV grew 74.2% year-over-year, driven by new product adoption and higher consumer engagement. Total revenue as a percentage of GMV, our take rate, improved slightly year-over-year to 10.6%. The sequential decrease aligns with historical trends as our first quarter take rate benefits from two main items, the spillover of payments from fourth quarter transactions into first quarter, and the decline in purchase frequency from subscribers compared to the holiday season of fourth quarter.

On slides 11 and 12, we detail our transaction-related costs, which include transaction expense, provision for credit losses, and net interest expense. These costs total \$38.4 million, or 4.1% of GMV, down 40 basis points year-over-year. This improvement stems from continued optimization and payment processing and increased consumer use of ACH, driving our second quarter transaction expense down to 1.5% of GMV. This gain was partially offset by an increase in provision for credit losses to 2.2% of GMV as we continue leaning into growth while meeting our stated target of 2.5% to 3% annual provision, and unit economics of 60% to 65% as witnessed on slide 13.

Second quarter total revenue plus transaction-related costs as a percentage of total revenue increased 87.2% year-over-year to \$60.3 million and represented 61.1% of total revenue. Since we've touched on our unit economics, we want to showcase the health of our growth and underwriting on slide 14.

Recall on our second quarter 2024 earnings call, we noted that we started expanding our risk tolerance by letting in more first-time users in mid-2024. We commented that we were expanding our risk tolerance but expected to maintain strong, stable margins, and we did just that.

As you can see, we gave more consumers the opportunity to use Sezzle for the first time while also expanding our wallet share with existing consumers. Although we don't show consumer balances, the graph on the right clearly shows that we continue to successfully bifurcate our growth by expanding credit for non-delinquent consumers compared to delinquent users. As a side note, our understanding is that the lines are flipped for the credit card industry. This slide speaks volumes about our underwriting capabilities and reinforces our confidence in the health and sustainability of our growth trajectory.

Turning to slide 15, you'll see that non-transaction related operating expenses continue to remain well controlled. These expenses, which include personnel, technology, marketing, and G&A, totaled \$27.7 million, up 50.4% year-over-year, but down 480 basis points as a percentage of revenue to 28.1%.

The sequential rise in our non-transaction-related OPEX is a percentage of our total revenue stems from increased marketing spend, which grew 64% quarter-over-quarter to \$8.8 million. As Charlie noted earlier, we're ramping up our marketing efforts with a target payback period of six months. Early indicators suggest we're on track to hit this target. And we expect to see the benefit when our first half investment comes to fruition in our third and fourth quarter results.

Moving on to the last and arguably most vital component of our income statement metrics, our profitability as seen on Slide 16 and 17. Net income came in at \$27.6 million or 28% of revenue, down modestly year-over-year due to the outsized discrete tax benefit in the prior year quarter. Excluding discrete tax benefits, we achieved adjusted net income of \$24.4 million, nearly doubling the prior comparable period in 2024. Adjusted EBITDA also increased at a similar pace, raising 106% to \$37.9 million, representing 38.4% of total revenue.

Looking at the balance sheet on slide 18, our cash remained flat quarter-over-quarter largely driven by the increase in those receivables from volume growth and the repurchase of \$23.5 million of common stock as part of our \$50 million repurchase program announced on March 10 of this year. We ended the quarter with \$120 million in cash, including \$31 million of restricted cash and availability on the line of credit of \$4 million on our \$150 million credit facility.

Cash usage from operations for the quarter was \$36.3 million, which again includes a \$58.9 million increase in notes receivable tied to our GMV growth this quarter. The sequential decrease in operating cash flows consistent with our expectations and historical cash flow seasonality.

Finally, let's turn to slide 19, our outlook. We are reaffirming our full year guidance across all key financial metrics of total revenue growth, total revenue less transaction related costs as a percentage of total revenue, and adjusted net income and adjusted EPS. I'd like to call out that with the \$4.91 [ph] millions of discrete tax benefits recognized year-to-date that our GAAP net income will differ from our adjusted net income guidance of \$120 million. And for the first time, we are introducing a 2025 adjusted EBITDA target of \$170 to \$175 million.

We remain committed to balanced growth, investing where we see efficient returns while holding the line on overhead and credit quality. We continue to monitor consumer trends and macro signals closely. But thus far, our core metrics show sustained growth, time strength, and engagement frequency, and retention.

With that, I'll turn it over to the operator for Q&A.

## QUESTION AND ANSWER

### Operator

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

The first question we have will come from Mike Grondahl of Northland. Please go ahead.

**Mike Grondahl**

Thanks, guys. Two questions. One, the 748,000 MODS, could you talk a little bit about the mix of those between on demand, premium, and anywhere, how those have trended, and then kind of the profitability? And second, on the investment side in 2Q, is that primarily marketing that you're calling out that \$8.8 million? Is there any other investment kind of to call out or make us aware of? That would be great?

**Charles Youakim**

On the second question, Mike, it's really the marketing investment on that line. So just \$8.8 million. And then on the MODS, the primary area of growth in the MODS number was mostly on on-demand because it's a new popular product, which is kind of working the way we thought it would, it's a lower barrier of entry, getting more consumers into our, you know, the consumer side of our business essentially where they are making the choice to pay us directly. But subscribers, I think, that they've actually held pretty well over this time period and that's why we...you know, I think couple quarters back, we launched on demand. We said expect some waviness in the numbers with subscribes because we know that on demand in a way with mindset kind of way, it's a little bit competitive to the subscription products we have. But I have to say we are pretty happy with where things are going. So...but the split has provided with a lot of growth on demand.

**Mike Grondahl**

Got it. And how different is the profitability between an on-demand customer in premium or anywhere.

**Charles Youakim**

It sounds it's radically different. Anywhere is the most profitable because there is just so much usage. Like, you know, once you basically decide to subscribe that product, it's like the customers made the...they have dived in. They will...of course, [indiscernible] IMPS scores. They definitely love our product and they just kind of dive in and say, I want to use this everywhere and we have more activity in the product. You get more profitability. Premium is a higher margin product than the others and so maybe it's a little bit less than anywhere in terms of like usage per month or per time period, but it has such good margins that it does quite well.

And then on-demand is just...it's the lowest of the three right now, in terms of margin as well as life time value. Because of this combination, some of these customers are using just once just to try it out. So as a whole, it ends up being in the second and third place out of those three. And so, you know now, we actually even internally as a company, we really...we are already starting the process of getting these on-demand customers and having them, you know, start to market to them to get into subscription products as we...you know, it was the whole idea. Get the customers in, let them kind of try us a little bit more, a little bit more trial before we basically recommend to them that, you know, a subscription product might be a better choice for you over time. And then once you get the customer in the subscription then they are kind of all in, you know, before they might have been dabbling in the Sezzle, maybe dabbling in the competitor products but once they made that, you know, jump in, now they are in.

So that's the breakdown. It's actually pretty much as we expected when we launch, we would have that kind of great quarter.

**Mike Grondahl**

Maybe, just one more there. Did Premium or Anywhere grow year-over-year or what do say most of that year-over-year growth was on demand.

**Charles Youakim**

Most of it was on-demand but Anywhere grew as well.

**Mike Grondahl**

Okay.

**Charles Youakim**

Premium has probably taken the biggest hit of the three products with on-demand coming into the mix.

**Mike Grondahl**

Okay. Thank you.

**Operator**

Next, we have Rayna Kumar of Oppenheimer.

**Analyst**

This is [indiscernible] on for Rayna. Just a quick question. Given the volatile macro environment in a scenario where consumer credit quality starts to erode, can you just give us a little more color on how you are underwriting an expense management may evolve?

**Charles Youakim**

Yes, if you ever see a thing, we monitor the fault rates daily through our systems and, you know, one of the nice things about the product, you know, we talked about comparison to credit cards. You know, comparing to [indiscernible] you know, credit cards to my understanding if you want to lower someone's credit limit, you got to give a 45-day advance warning and then through...after that notification, you have to wait that time period and then make adjustments. And when I say from our standpoint, we'll now buy now pay later, we don't have that sort of restriction. We can actually move limits today. Like, we saw something today we didn't like and we thought it was maybe economically related, we could reduce limits across the board, which is basically something we do in the holiday period honestly. Like in a holiday period, we don't want people overspending so that's why we feel so good about these products, you know, I am an investor in the company, a lot of the people on the call here, we are all investors in the company as well and that's what I think helps us sleep well as we know that if something comes up, you know, we'd always adjust things down. Of course, that will affect your payment volumes and maybe some of the topline but then you can control loss rates much better than a lot of other financial services products. So, in a shaky economy, I think that we are probably one of the best added products you could ever be a part of on an investor side because of the flexibility and how fast we can move.

**Analyst**

Yes, that makes a lot of sense. What are you guys seeing out there in terms of the competitive landscape, any changes specifically in pricing from your competitors?

**Charles Youakim**

No, not really. You know, people always ask us about competitive landscape and I...the two most heads up to us, I would say are Clara and Zip. And then maybe Afterpay next rung for us



and then, Affirm, PayPal next rung. And it's not...I'm not talking about quality of company when I'm saying this like list. It's more about who has the products and services that are most similar to ours when we...from the customer standpoint. And so, when we look at that landscape of competitors, first off, they're all really good. But we haven't really seen much changing in terms of pricing or offerings.

#### **Analyst**

Okay. Yes, now that makes sense. And then just one last quick one, can you update us on your lawsuit with Shopify and what are any potential implications and the timing of that?

#### **Charles Youakim**

Yes, there's no update at this point. I think if there is any major updates, we'll let our investors know. But we're not expecting this to be super speedy, in terms of the processes. Just lawsuits in general are just not the fastest moving entities out there. It could be something that could take maybe upwards of three to five years in time frame. We don't...you know, that's probably the max. But at this point, no real update.

#### **Analyst**

Okay. Perfect. Thanks, guys.

#### **Charles Youakim**

No problem.

#### **Operator**

And next we have Hal Getsch of B. Riley.

#### **Hal Getsch**

Hey guys. My question is that all your metrics are really up into the right, active consumers, active, unique merchants. I mean, just it's all terrific. What was volatile, I think maybe sequentially was maybe your effective overall take rate and wanted...and that has been pretty steady and had maybe Q1 was just a really outsized good number and wanted to get your perspective on that and how we should think about it like seasonally or over time or quarter to quarter? Thanks.

#### **Charles Youakim**

Yes. Great question, Hal. Yes, Q1 was probably just a massive anomaly out there because I think we're north of 13% on take rate on volume. And a lot of that was due to...and we've explained, it's a lot of seasonality. So, what happens in the fourth quarter, we have generally larger GMVs coming through the company. But because of the way revenue is recognized on fee revenue, when the payments are actually made from customers, if there's a late fee attached, that actually is recognized as incurred. So, a lot of the payments from the fourth quarter go into the first quarter, which has a lower GMV because of seasonality, but the revenue is coming in the first quarter. So, it's not like I know GAAP is always trying to go for matching to help investors. I think in this case it doesn't really help investors the way that GAAP is forcing revenue recognition because we provision for losses in the fourth quarter but we're not provisioning for the revenue in the fourth quarter as well.

We actually take that as incurred into the first quarter. And so, if you look back at like fourth quarter, third quarter, fourth quarter might be the best one to look at. We're actually pretty comparable in terms of the top lines. But one thing I'd say to call out though is we actually have done a lot of efforts to move customers to pay us back with ACH as well, which also lowers the

top line, but also lowers cost of processing too. So, that's why our gross margin...the non-GAAP gross margin is over 60% when I think you look back at the third quarter, fourth quarter last year were lower than that. So, even though the top line might be much lower than the first quarter, our cost of transaction processing went way down relative. So, that the gross margin is actually north of our 60.

**Hal Getsch**

Okay. So basically, GMV from Q4, most of the especially if it's December weighted, you're going to have all those payments in January, including on demand.

**Charles Youakim**

Q1 is always a mess.

**Hal Getsch**

On demand fees, late fees, yes. If you got revenues...okay, yes, you have revenues from...I got it. It makes it...that's really helpful in understanding.

**Charles Youakim**

Yes. Q1 is the hardest quarter to like...basically you can't...it's not an annualized...you don't annualize that quarter because of the revenue recognition.

**Hal Getsch**

So, with a lot of subscribers, it could very well be a 13 number next quarter, Q1 as well. It's just that you need to be ready for a step down that when that that back half weighted December shopping doesn't happen in the second quarter, third quarter? Next...

**Charles Youakim**

Yes. So basically, if we get lots of utilization on subscribers, then the top line comes down a bit. And then when you have lower utilization like the lower GMVs per user but the fees come in then the top line comes up because the revenue recognition is on the lower volumes in the first quarter.

**Hal Getsch**

Okay. Very good. And that's all I've got. Thank you very much.

**Charles Youakim**

Okay. Thanks Hal.

**Operator**

Again, as a final reminder, if you would like to participate in today's Q&A, please press "\*" then "1." Yes, at this time, there appears to be no further questions. I will go ahead and conclude today's question and answer session. I would now like to hand the conference back over to management for any closing remarks.

**CONCLUSION**

**Charles Youakim**

Thank you. Once again, a big thank you to our team. We continue to scale the business wonderfully. Part of that reason for that is our business does just scale well. But the other reason we're scaling so well is because the Sezzle team is loaded with talent and stars, which means we don't need to keep on adding people as our people do more than most.

And I would say this one, they call it a company for a reason and our company just happens to be damn good. And finally, a fun story from Warren Buffett to close the call. Warren Buffett once gave a talk to a group of MBA students and said something surprising. He held up an imaginary punch card and told them, "I could improve your ultimate financial welfare and your emotional well-being by giving you a punch card with only 20 punches in it. That's all the investments you get to make in your entire life. Once you use up those 20, you're done."

The room got quiet and Buffett continued. "Under those rules, you'd really think carefully about what you did. You'd do your research, you'd wait patiently, and you'd bet big when you had real conviction. And because of that, you'd end up doing far better than the average investor."

Here, Buffett wasn't only talking about stocks, he was talking about life decisions, what jobs you take, who you work with, who you marry, which partnerships you form, which businesses you start. You only get so many shots at things that truly matter. Buffett continued, "Most people go through life making decisions with no real cost. They over diversify. They chase every opportunity. They constantly shift focus. But if you had a punch card every time, you'd concentrate your time and energy on what really matters." Personally, I strongly agree with Buffett on this one, and I hope that we can continue to attract high conviction investors that agree with this mindset.

Thank you all for listening in today. We hope you have a great rest of your week.

**Operator**

Thank you, sir, and to the rest of the management team for your time also. The conference call has now concluded. At this time, you may disconnect your lines. Thank you again, everyone. Take care, and have a great day.