

Cover slide**Operator**

Welcome to Oportun Financial Corporation's First Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent background noise. After the speakers' remarks, there will be a question-and-answer session. Today's call is being recorded. For opening remarks and introductions, I'd like to turn the call over to Dorian Hare, Senior Vice President of Investor Relations. Mr. Hare, you may begin.

Slide 2**Introduction: Dorian Hare, Senior Vice President, Investor Relations**

Thanks, and hello everyone. With me to discuss Oportun's first quarter 2024 results are Raul Vazquez, Chief Executive Officer, and Jonathan Coblenz, Chief Financial Officer & Chief Administrative Officer. I'll remind everyone on the call or webcast that some of the remarks made today will include forward-looking statements related to our business, future results of operations and financial position, planned products and services, business strategy, expense savings measures, statements regarding our senior secured term loan and plans and objectives of management for our future operations. Actual results may differ materially from those contemplated or implied by these forward-looking statements, and we caution you not to place undue reliance on these forward-looking statements. A more detailed discussion of the risk factors that could cause these results to differ materially are set forth in our earnings press release and in our filings with the Securities and Exchange Commission under the caption, "Risk Factors," including our upcoming Form 10-Q filing for the quarter ended March 31, 2024. Any forward-looking statements that we make on this call are based on assumptions as of today, and we undertake no obligation to update these statements as a result of new information or future events other than as required by law.

Also on today's call, we will present both GAAP and non-GAAP financial measures, which we believe can be useful measures for the period-to-period comparisons of our core business, and which will provide useful information to investors regarding our financial condition and results of operations. A full list of definitions can be found in our earnings materials, available at the investor relations section on our website. Non-GAAP financial measures are presented in addition to, and not as a substitute for, financial measures calculated in accordance with GAAP. A reconciliation of non-GAAP to GAAP financial measures is included in our earnings press release, our first quarter 2024 financial supplement and the appendix section of the first quarter 2024 earnings presentation, all of which are available at the investor relations section of our website at investor.oportun.com. In addition, this call is being webcast, and an archived version will be available after the call, along with a copy of our prepared remarks. With that, I will now turn the call over to Raul.

Raul Vazquez, Chief Executive Officer

Slide 3 [Earnings Overview]

Thanks, Dorian and good afternoon, everyone. Thank you for joining us. Today, I'll discuss our first quarter performance and update you on our progress on key areas of focus.

Let me begin with four highlights of our Q1 performance.

- First, we generated revenue of \$250 million, outperforming the top-end of our guidance range by \$12 million, or 5%. This outperformance was driven by a strong March with higher interest income and portfolio yield as the price increases we've been enacting took hold at a higher rate than anticipated.
- Second, our Q1 annualized net charge-off rate was 12.0% and at the low-end of our guidance range, 22 basis points lower sequentially and 7 basis points better than last year. Our quarterly net charge-offs measured in dollars declined year-over-year for the second consecutive quarter, in this instance by 7%.
- Third, our GAAP operating expenses were just under \$110 million, down 15% sequentially and 25% year-over-year. The last time we reported quarterly GAAP operating expenses below \$110 million was the first quarter of 2021.
- Finally, our profitability has markedly improved, with both our Adjusted EBITDA and Adjusted Net Income turning positive from year-ago losses.
 - Adjusted EBITDA was \$2 million, an improvement of \$22 million year-over-year.
 - We generated \$4 million in Adjusted Net Income, a \$61 million improvement from the year-ago quarter.
 - And, our GAAP net income improvement was even more substantial at \$76 million.

In summary, I'm proud of how the team executed and pleased that Q1 showed more signs of the expected business recovery that I outlined during the last earnings call.

I'll now update you on progress we're making on our 2024 strategic priorities, which gives me confidence in our outlook.

Starting with credit, I'll highlight three positive dynamics that we're seeing.

- First, as you can see on **Slide 5** of our earnings presentation, the loss rates 12 or more months post-disbursement for our front book of loans continue to run approximately 400 basis points lower when compared to our back book of loans, with our Q1 2023 vintage now joining that group. Even more encouraging, we're now seeing that more recent front book vintages are outperforming their predecessors.
 - As a reminder, the back book is comprised of loans originated prior to the first material tightening in July of 2022; the front book of loans is comprised of originations since then.

- Second, you can also see on **Slide 6** that the back book shrank to 16% of our owned principal balance at the end of the first quarter, but disproportionately accounted for 40% of our gross charge-offs. We still expect the impact of the back book to diminish throughout 2024 and our back book to shrink to 3% of our owned principal balance at the end of this year.
- And third, starting in late January, we started experiencing positive trends in early-stage delinquencies, which continued in February and March. 1-29 day delinquencies are now running well below 2023 levels and the positive trends are starting to roll into 30-59 day delinquencies. We expect that these favorable trends will drive 30+ day delinquencies further down in Q2 from 5.2% during Q1 2024, which were already down over 60 bps from Q4 2023.
- Improving credit outcomes is our top priority, and I'm pleased with the progress we've made and expect to continue to make this year.

Relating to our priority to fortify business economics during 2024, I'd like to update you on our expense management progress.

- As you can see on **Slide 7** of our earnings presentation, we are significantly more efficient today than we were during our IPO year five years ago.
- Adjusted OpEx as a percentage of Average Managed Principal Balance was down by almost 400 basis points to 13.0% in Q1 2024 vs 16.9% in Q1 2019.
- And, we've made substantial progress to get our GAAP operating expenses below \$110 million for Q1 2024, remaining on track to achieve operating expenses of \$97.5 million or below by Q4 2024.
- In summary, we outperformed our expectations for the first quarter, including a return to adjusted profitability, and remain keenly focused on expense management with even more profitability improvement on the horizon. Jonathan will share the details with you shortly, but I want to let you know that we are raising full year Adjusted EBITDA guidance by 31% at the midpoint of the range.

Shifting to our priority to identify high-quality originations, I'd like to highlight our prudent expansion in Secured Personal Loans, or our SPL product, which you can see on **Slide 8**.

- As a reminder, we launched SPL in the summer of 2020 and paused our originations in four states during 2023 due to our rebalancing of priorities and a desire to retool the partnership with Pathward®, N.A.
- Available only in California as of the end of last year, we reintroduced Secured Personal Loans in our next two biggest states, Texas and Florida, at the end of the first quarter. We also relaunched SPL in Arizona and New Jersey earlier this month, and are rolling out the product in Illinois for the first time during this quarter.
- We are excited about the expansion of SPL because of its superior unit economics. Not only did losses last year run approximately 350 basis points lower for our Secured Personal Loans as compared to Unsecured, but revenue per loan was over 50% higher, since, on average, SPL loans are over \$3,000 larger.
- In addition, responsibly expanding secured lending, collateralized by members' autos, allows us to better serve our members. Our SPL product has allowed us to invite 3 of 10 applicants who we weren't able to approve for Unsecured Personal Loans to apply.

In summary, I am very pleased with our first quarter performance, yet we expect a better second quarter than our first quarter and our conviction remains strong to be profitable on an adjusted basis during 2024.

With that, I will turn it over to Jonathan for additional details on our first quarter financial performance as well as our second quarter and full year guidance.

Jonathan Coblentz, Chief Financial Officer & Chief Administrative Officer

Slide 10 [First Quarter Highlights]

Thanks Raul, and good afternoon everyone. As Raul mentioned, we had a strong first quarter and are positioned to improve upon our performance throughout the balance of the year. We remain focused on substantially increasing our profitability in 2024 and beyond by driving performance in our three differentiated, core products: Unsecured and Secured Personal Loans as well as our Savings product. We will continue to do so while reducing costs and maintaining our conservative credit posture.

As shown on **Slide 10**, Oportun delivered total revenue of \$250 million, and we returned to profitability with Adjusted Net Income of \$4 million, for Adjusted EPS of \$0.09.

Continuing to operate under a tightened credit posture, originations of \$338 million were down 17% year-over-year. Sequentially, originations were down 23% from the fourth quarter, aligning with the typical seasonal pattern following year-end. While dollar volume of originations and average loan size declined due to our tightening actions, I am pleased to share that better than expected demand from new members drove 16% year-over-year growth in the number of loans originated. These incremental loans were also better credit quality as the credit profile of our application pool improved. This sets us up well for future growth when these new members return for subsequent loans.

The year-over-year revenue decline of 3% outpaced our originations decline by 14 percentage points. This outperformance resulted from our price increases as portfolio yield increased 113 basis points year-over-year, improving to 32.5%. We will continue to enhance yield throughout 2024 while remaining committed to our 36% APR cap.

Net revenue was \$79 million, up markedly year-over-year, due to reduced non-cash fair value marks and lower charge-offs, partially offset by higher interest expense.

Our total net decrease in fair value of \$117 million was primarily driven by current period charge-offs of \$85 million. Total fair value mark-to-market adjustments were favorable by \$3 million as the mark-to-market on our loan

portfolio was largely offset by the mark-to-market on our remaining fair value asset-backed notes. As a reminder, we elected last year to stop fair valuing our new debt financings in our GAAP financials.

Interest expense of \$54 million was up \$15 million year-over-year. This was primarily driven by increased debt outstanding and the increase in our cost of debt to 7.5% versus 5.2% in the year-ago period, reflecting the higher rate environment.

Turning now to operating expenses and efficiency, we continue to see the benefits of our previously announced cost structure optimization initiatives. Our \$110 million in total operating expenses in Q1 reflected a 25% reduction from the prior-year period. We will continue to drive our cost structure lower in 2024 with the \$30 million of additional annualized operating expense reductions that we announced on our last earnings call. We continue to target \$97.5 million in Q4 GAAP operating expenses.

In the first quarter, our sales and marketing expenses were just over \$16 million, down 17% year-over-year. And, I'm pleased to share that our CAC of \$138 was down 28% year-over-year and at our lowest level since the second quarter of 2022.

For the quarter, we recorded adjusted net income of \$4 million, compared to a \$58 million adjusted net loss in the prior-year quarter, and adjusted EPS of \$0.09 versus a prior-year net loss per share of \$1.70. This marked improvement in adjusted profitability was primarily driven by reduced operating expenses and credit losses, along with current period mark-to-market increases in our loan portfolio as our discount rate and remaining cumulative net-charge off expectation both declined.

Adjusted EBITDA, which excludes the impact of fair value mark-to-market adjustments on our loan portfolio and notes, was \$2 million in the first quarter. This reflected a strong year-over-year increase of \$22 million, driven by our sharply reduced cost structure.

Slide 11 [Credit Performance]

Now, on **Slide 11**, let me discuss Q1 credit performance. Our Annualized Net Charge-Off Rate of 12.0% was at the low-end of our guidance range. This compared to 12.1% in the prior-year period.

Our 30+ day delinquency rate declined year-over-year by 21 basis points and sequentially by 64 basis points to 5.2%. As Raul mentioned, our early stage delinquencies are running well below 2023 levels, and we expect our 30+ day delinquency rate to continue to improve going forward. The last time the early-stage buckets were running below the prior year was three years ago, when 2021 levels were below 2020.

Slide12 [Capital and Liquidity]

Regarding our capital and liquidity as shown on **Slide 12**, net cash flows from operating activities for the first quarter were strong at \$86 million, up 12% year over year.

As of March 31, total cash was \$197 million, of which \$69 million was unrestricted and \$127 million was restricted. Further bolstering our liquidity was \$607 million in available funding capacity under our warehouse lines and remaining whole loan sale agreement capacity of \$258 million.

I'm also pleased to share that since quarter end we signed a new agreement with one of our partners to sell an additional \$150 million of whole loans over the next six months.

Before I leave our discussion of capital and liquidity, I want to share that we are getting closer to completing our strategic review on our credit card product, and we also continue to evaluate refinancing options on our senior secured term loan.

Slide 13 [Guidance]

Turning now to our guidance as shown on **Slide 13**, our outlook for the second quarter is:

- Total Revenue of \$245 to \$250 million;
- Annualized net charge-off rate of 12.4% plus or minus 15 basis points
- Adjusted EBITDA of \$14 to \$17 million

Let me spend a minute providing you with a bit more color.

- First on revenue, the seasonally lower origination volume in Q1 means that our portfolio will decline slightly in Q2. However, expected higher portfolio yield will lead Q2 revenue to be only slightly down to flat compared to Q1.
- With respect to credit, we expect Q2 charge-offs in dollars to be flat-to-down sequentially, so the higher annual charge-off guide at the midpoint for Q2 is driven entirely by a lower receivables base.
 - On **Slide 14**, you can see how impactful portfolio growth is to our annualized net charge-off rate.
- Finally on profitability, strong sequential Adjusted EBITDA improvement from \$2 million in Q1 to \$15 million at the midpoint for Q2 reflects our ongoing cost discipline and the operational improvement we expect throughout the remainder of the year.

Our guidance for the full year is:

- Total Revenue of \$985 million to \$1.01 billion,
- Annualized net charge-off rate of 11.9% plus or minus 50 basis points,
- Adjusted EBITDA of \$80 to \$90 million

I'm pleased that we're able to provide you with full-year guidance reflecting the continuation of the 2024 business recovery we initiated in Q1. Driven by our resilient top-line amidst credit tightening, prudent underwriting and further cost reductions, our full-year Adjusted EBITDA guidance reflects \$66 million of improvement over last year at the midpoint, or approximately 350% year-over-year growth.

Raul, back over to you.

Cover slide [Closing Remarks]

Raul Vazquez, Chief Executive Officer

Thanks, Jonathan.

Before I wrap up, I want to publicly welcome Scott Parker to Oportun's Board of Directors. Scott's appointment as an Independent Director follows Oportun's cooperation agreement with Findell Capital that was announced on April 22nd.

- Scott currently serves as Chief Financial Officer of NationsBenefits, a leading provider of supplemental benefits and fintech solutions to the healthcare industry. A seasoned CFO, Scott previously led the finance function at Ryder System, OneMain Holdings, and at CIT Group.

I also want to welcome Richard Tambor as a Board Observer. Rich has agreed to stand for election as an Independent Director at our 2024 Annual Shareholder Meeting.

- Rich previously served as the Executive Vice President and Chief Risk Officer at OneMain Holdings. He was also previously the Chief Risk Officer of Retail Financial Services at JPMorgan, Chief Risk Officer of Small Business Services at American Express, and has held additional executive and risk-management related positions at other institutions.

The Board and management team will benefit from Scott and Rich's perspectives and contributions as we continue to focus on disciplined execution and driving profitable, sustainable growth.

Including Scott and Rich, we have added four highly qualified, independent individuals to participate in our Board meetings over the last year.

To close, I'd like to emphasize that:

- We're pleased with our first quarter performance, which featured \$76 million of GAAP net income improvement and a return to adjusted profitability.
- We are confident in our outlook and have raised our revenue and adjusted EBITDA guidance while reaffirming our expectation to be profitable on an adjusted basis this year.

- We expect to exit 2024 with an annualized cost structure \$240 million below peak levels and the near-elimination of our back book.
- And, we're intent on driving the business towards the 20 to 28% ROEs we talked about in March when we first presented our target unit economics model.

Finally, I want to thank the Oportun team for their solid execution in Q1 and their ongoing commitment to our recovery and Mission. I also want to thank our shareholders for their continuing support and belief in Oportun.

With that, Operator, let's open up the line for questions.

[Question & Answer Session]

Conclusion: Raul Vazquez, Chief Executive Officer

Thanks again for joining us on today's call. We look forward to speaking with you again soon.