Cover slide

Operator
Welcome to Oportun Financial Corporation's Second Quarter 2025 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 second quarter 2025 results are Raul Vazquez, Chief Executive Officer and Paul Appleton, our Treasurer, Head of Capital Markets and interim Chief Financial 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, including projected Adjusted ROE attainment and expected originations growth, planned products and services, business strategy, expense savings measures 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 June 30, 2025. 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 second quarter 2025 financial supplement and the appendix section of the second quarter 2025 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 [2Q25 Earnings Overview]

Thanks, Dorian, and good afternoon, everyone. Thank you for joining us.

Q2 was another strong quarter—GAAP profitability, improved credit metrics, and disciplined growth reaffirm that our strategy is working. We also continued to make progress on our long-term ROE and leverage targets - a testament to the strength of our operating model and good execution in Q2.

The four key headlines from Q2 are: continued GAAP profitability, improved credit performance, ongoing expense discipline and a strengthening balance sheet.

1. First, we were GAAP profitable once again in Q2:
    - Net income reached $6.9 million—our third consecutive quarter of GAAP profitability—driven by a $38 million year-over-year improvement. We also generated an ROE of 7%, up 41 percentage points, year-over-year.
    - We achieved these results with ongoing expense discipline, improved credit performance and originations growth.
    - We remain on track to achieve GAAP profitability for full year 2025.
2. Regarding improved credit performance,
    - Our annualized net charge-off rate was 11.9%, 41 basis points better than last year's levels.
    - Our 30-plus day delinquency rate also improved year-over-year, by 54 basis points to 4.4%.
3. For Q2, we reported $94 million in operating expenses, down 13% year-over-year. We reduced total expenses while increasing our marketing expenditure by $2 million, which drove our originations growth. Thanks to our diligent expense management, we now expect full year 2025 GAAP operating expenses of approximately $380 million - down $10 million from our prior expectation of $390 million and down $30 million from 2024's $410 million. This implies $96.5 million of quarterly OpEx on average during the second half of the year.
4. Finally, in June, we successfully completed our latest ABS transaction, a $439 million issuance of two-year revolving fixed rate asset-backed notes. I am very pleased to note that the transaction was completed at a weighted average yield of 5.67%, a 128 basis point improvement from our prior ABS transaction in January. And, we received a AAA rating on our most senior bonds - a first for Oportun and a testament

to how far we have come over the past couple of years. We view this as a very strong outcome for Oportun and a reflection of our progress.

While we generally met our Q2 objectives, revenue did underperform slightly due to higher member repayment rates, and Paul will walk you through that.

Slide 4 [Strategic Priorities]

With the financial highlights covered, let's take a step back and review how we're executing against our three strategic priorities: improving credit outcomes, strengthening business economics, and identifying high-quality originations.

1. Regarding improving credit outcomes, we are consistently fine-tuning our models and processes based upon member behavior and trends we observe within the communities that we serve.
    - For example, having successfully used Plaid to access bank transaction data for underwriting for several years now, we recently enhanced our decisioning to utilize *Plaid Check*, their FCRA compliant consumer report. Approximately 60% of second quarter loan disbursements utilized bank transaction data.
    - The first half saw a greater mix of new members versus returning members than expected. Given typical credit performance dynamics, this shift is anticipated to result in modestly higher full-year losses. As a result, we're recalibrating our originations more towards existing members.
2. On strengthening business economics, our focus is on continued efficiency gains.
    - During Q2 we improved our risk adjusted net interest margin year-over-year by 192 basis points to 16.3%. As a reminder, that metric includes portfolio yield, net charge-offs, cost of capital and loan-related fair value impacts.
    - We also improved our adjusted OpEx ratio year-over-year by 46 basis points to 13.3% of our owned portfolio.
    - Both measures contributed meaningfully to the strong operating leverage we delivered this quarter, driving ROE higher by 41 percentage points year-over-year, and nearly quadrupling our Adjusted EPS.
3. Finally, we're continuing to identify high-quality originations by reinvesting in marketing and targeting members with higher levels of free cash flow, within our conservative credit standards.
    - 2Q originations of $481 million were up 11% year over year. That's the third consecutive quarter that we've grown originations under our ongoing conservative credit posture.
    - Supporting this strategy, our loan referral program delivered strong results, with originations increasing 127% year-over-year to $34 million during Q2.

- We also remain focused on expanding our secured personal loans portfolio, which accounted for 39% of our personal loans originations growth during Q2.
    - As a reminder, during full year 2024, secured personal loans losses ran approximately 500 basis points lower compared to unsecured personal loans.
    - We grew the secured loan portfolio by 58% year-over-year to $195 million, or to 7% of our owned portfolio. That's up from 5% of our portfolio a year ago.
    - I'm pleased to inform you that SPL is now available in eight states after we launched the product in Nevada and Utah during Q2.

<u>Slide 3 [2Q25 Earnings Overview]</u>

I'd like to now preview our updated 2025 outlook. While we continue to monitor key indicators such as inflation, unemployment, fuel prices and evolving government policies, alongside our internal performance metrics, we have been pleased to observe how resilient our customers have been despite ongoing macro uncertainty. Supported by our more efficient cost structure and improved credit performance, this positions us to remain agile and well-prepared as conditions continue to evolve.

While first half results exceeded expectations, we expect higher member repayment rates to result in a lower portfolio yield than previously anticipated, and we now expect a slower decline in our net charge-off rate for the second half. We've responded by recalibrating credit and implementing the additional cost reductions that I just discussed. Incorporating these actions, we are increasing our full-year Adjusted EPS guidance by 8% at the midpoint, now targeting $1.20 to $1.40 per share—representing strong growth of 67 to 94% versus last year's Adjusted EPS levels.

In summary, we are very pleased with our ability to deliver enhanced profitability while offering essential financial services to our hardworking members. We are focused on executing our three strategic priorities and ensuring we continue our strong momentum. With that, I will turn it over to Paul for additional details on our financial and credit performance, as well as our guidance.

Paul Appleton, Treasurer, Head of Capital Markets and Interim Chief Financial Officer

<u>Slide 5 [Performance vs. Guidance]</u>

Thanks Raul, and good afternoon everyone. As you can see on **Slide 5,** we had a solid second quarter, meeting our Adjusted EBITDA and annualized net charge-off rate guidance, while delivering strong GAAP and adjusted earnings per share.

Slide 6 [Second Quarter Highlights]

As shown on **Slide 6**, we delivered total revenue of $234 million in the second quarter, modestly below our guidance due to higher member repayment rates than anticipated, resulting in a lower loan yield. We achieved our third consecutive quarter of GAAP profitability, with $6.9 million in net income and diluted EPS of $0.14. We were also profitable on an adjusted basis for the sixth consecutive quarter with Adjusted Net Income of $15 million, and an Adjusted EPS of $0.31.

While maintaining credit discipline, originations of $481 million were up 11% year-over-year, in line with our expectations. Sequentially, originations were up 2% from Q1's $469 million.

Total revenue of $234 million declined by $16 million, or 6% year-over-year.

- This decline was primarily due to the absence of $10 million of credit card revenue in the prior-year quarter. As a reminder, we completed the sale of our credit card portfolio in November of last year, which has been accretive to our bottom line.
- Furthermore, portfolio yield for the second quarter was 32.8%, a decrease of 106 basis points as compared to 33.9% in the prior-year quarter. This was primarily due to a higher rate of loan repayment, whereby remaining loans featured higher origination fees and lower interest rates.

Total net change in fair value declined by $70 million this quarter, primarily due to $79 million in net charge-offs. Furthermore, our improved credit performance and strong demand for our loan assets drove a favorable $9 million mark-to-market adjustment on our portfolio.

Second quarter interest expense of $60 million was up $5 million year-over-year as sub-3% pandemic-era ABS issuances continued to pay down.

Net revenue was $105 million, up 74% year-over-year, driven by improved fair value marks and lower net charge-offs, which more than offset lower total revenue and higher interest expense.

Operating expenses were $94 million, down 13% from the prior-year, reflecting our ongoing cost discipline. As Raul mentioned, due to additional cost saving measures that we've identified, we now expect full year 2025 operating expenses of approximately $380 million, averaging $96.5 million in the second half, for a 7% full year reduction from 2024.

Adjusted EBITDA, which excludes the impact of fair value mark-to-market adjustments on our loan portfolio and notes, was $31 million in the second quarter. This reflected a year-over-year increase of $1 million, driven by cost reductions and credit performance improvement. As a result, our Adjusted EBITDA margin reached 13.3%, up 1.2 percentage points year-over-year.

Adjusted Net Income increased to $15 million, an improvement of $11 million from last year, principally driven by our reduced operating expenses along with improved credit performance. Adjusted EPS increased markedly year-over-year from $0.08 to $0.31, while our Adjusted ROE improved by 12 percentage points to 16%, which I will detail when I review our unit economics progress.

Slides 7-9 [Credit Performance]

Next, I'd like to provide some additional color on our continued credit performance improvement in Q2:

- Our front book of loans, originated since July 2022, continues to perform quite well, while our back book of pre-July 2022 loans continues to roll off.
    - As you can see on **Slide 7**, our more recent credit vintages have generally outperformed their predecessors and, as a result, the losses on our front book twelve-plus months after disbursement are now running approximately 600 basis points lower than our back book.
    - Furthermore, you can see our annualized net charge-off rate for the quarter by front-book versus back-book on **Slide 8**. In Q2, the front book had an annualized net charge-off rate of 11.6%, near the 9 to 11% net charge-off range that we target in our unit economics model. The back book continues to decline, representing just 2% of the loan portfolio at quarter-end but accounting for 10% of gross charge-offs. We still expect the back book to further diminish to just 1% of our portfolio by the end of 2025.
- Finally, as you can see on **Slide 9**, our NCO rate was 11.9% in the second quarter which was 41 basis points better than last year's rate. Our Q2 net charge-off dollars declined by 6% while we reduced our 30-plus day delinquency rate by 54 basis points.

Slide 11 [Capital and Liquidity]

Turning to capital and liquidity, as shown on **Slide 11**, we de-leveraged by reducing our debt-to-equity ratio from 7.6x to 7.3x quarter-over-quarter, supported by GAAP profitability and $105 million in operating cash flow, of which $55 million was used to pay down debt. We've now reduced leverage by 1.4x from 3Q24's peak level of 8.7x, over half of what's required to get down to the 6.0x leverage level we're targeting in our unit economic model.

As we mentioned on our prior call, in late April, we fully satisfied the $12.5 million in mandatory payments that were due by July 31st on our corporate debt facility, completing the payments three months ahead of schedule. Consequently, Oportun has no further mandatory corporate debt repayment obligations during the remainder of 2025. That said, we will continue to seek out opportunities to reduce leverage while enhancing our liquidity.

As of June 30, total cash was $228 million, of which $97 million was unrestricted and $131 million was restricted. Further bolstering our liquidity was $618 million in available funding capacity under our warehouse lines.

Our continued access to the capital markets is well established. We closed on a two-year $187.5 million committed warehouse facility in April. This transaction increased our total committed warehouse capacity to $954 million with a diversified group of lenders. Since June 2023, Oportun has raised over $3 billion in diversified financings, including whole loan sales, securitizations, and warehouse facilities from fixed income investors and banks.

Furthermore as Raul mentioned, in June we issued $439 million in ABS notes at a 5.67% weighted average yield, which freed up warehouse capacity for future originations. The company maintains an exemplary record in the ABS market, having completed 25 transactions and issued $6.7 billion in notes to date from the Oportun shelf.

Slide 12 [Guidance]

Turning now to our guidance as shown on Slide 12, our outlook for the third quarter is:

- Total Revenue of $237 to $242 million
- Annualized net charge-off rate of 11.8% plus or minus 15 basis points, and
- Adjusted EBITDA of $34 to $39 million

Our Q3 total revenue guidance reflects a $10 million year-over-year decline at the midpoint, which substantially reflects the absence of the prior year period's $9 million in credit card revenue.

Our Q3 Adjusted EBITDA guidance of $37 million at the midpoint reflects disciplined expense management, lower net charge-offs, and 16% growth over 3Q24's level of $31 million.

We expect our Q3 annualized net charge-off rate to be 11.8% at the midpoint of guidance, down approximately 10 basis points year-over-year and 10 basis points sequentially.

Our revised full year 2025 guidance, includes:

- Total Revenue of $945 to $960 million
- Annualized net charge-off rate of 11.9% plus or minus 30 basis points
- Adjusted EBITDA of $135 to $145 million

We've narrowed our full year revenue guidance range by $10 million by reducing the higher end of the range, while maintaining the lower end. This adjustment reflects our second quarter revenue performance which was modestly below our expectations and a revised assumption for a higher rate of loan repayments.

I'll note that we expect second half year-over-year originations growth in the mid-single-digits. This will enable us to grow full year 2025 originations by approximately 10%, a reaffirmation of the expectation we set on the last earnings call.

Our updated full year annualized net charge-off rate expectation stands at 11.9% at the midpoint—10 basis points better than full-year 2024, but 40 basis points above our previous guidance. This reflects higher-than-expected repayment rates, which reduce the denominator in the charge-off calculation, and a higher percentage of new member originations in the first half, for which we've already adjusted our underwriting.

Given our strong performance in the first half of 2025 and the impact of ongoing cost reduction efforts, we are raising our outlook for Adjusted Net Income and Adjusted EPS. We now expect full-year Adjusted Net Income of $58 to $67 million and Adjusted EPS of $1.20 to $1.40.

Slide 14 [Unit Economics]

Before I turn it back to Raul, let me conclude with a brief summary of our unit economics progress. While our long-term targets are GAAP targets, I'll be using adjusted metrics for comparison because they remove non-recurring items and provide a better sense of our future run rate. It's clear on **Slide 14** that we continued to make significant progress in Q2. Adjusted ROE was 16%, which was a 12 percentage point year-over-year improvement. The increase was driven principally by cost reductions and improved credit performance.

Our north star continues to be delivering GAAP ROEs of 20 to 28% annually, driven by reducing annualized net charge-offs to 9 to 11%, lowering operating expenses to 12.5% of our owned portfolio, and attaining annual growth of 10 to 15% in our owned loan portfolio.

We also intend to return to our target 6:1 debt-to-equity leverage ratio over the longer term by reducing our corporate debt outstanding and continuing to increase our GAAP profitability.

Raul, back over to you.

Cover slide [Closing Remarks]

Raul Vazquez, Chief Executive Officer

Thanks, Paul.

To close, I'd like to emphasize three key points:

- First, we're pleased with our second quarter performance - achieving GAAP profitability for the third consecutive quarter, with a GAAP ROE of 7% and Adjusted ROE of 16% both markedly improved from a year ago;
- Second, we're again increasing our full year Adjusted EPS guidance expectations. Our Adjusted EPS guidance range of $1.20 to $1.40 reflects strong growth over full year 2024 of 67% to 94%; and
- Third, we're responsibly growing originations, which we expect to eventually result in a return to loan portfolio and revenue growth. We anticipate that this will provide additional operating leverage and our next catalyst for EPS growth.

Following our return to adjusted profitability last year, and with full year GAAP profitability now in sight for this year, we're seeing clear evidence that our strategy is working. This progress is a testament to the commitment of our team and the trust of our members. We remain confident in the long-term value we are creating for both our business and our shareholders.

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

[**Question & Answer Session]**

Conclusion: Raul Vazquez, Chief Executive Officer

Thank you again for joining today's call—we appreciate your continued interest in Oportun. We look forward to speaking with you again soon.