Thursday, May 8, 2025

<u>Cover slide</u>

Operator

Welcome to Oportun Financial Corporation's First 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.

<u>Slide 2</u>

Introduction: Dorian Hare, Senior Vice President, Investor Relations
Thanks, and hello everyone. With me to discuss Oportun's first 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 origination 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 March 31, 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 first quarter 2025 financial supplement and the appendix section of the first 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 [1Q25 Earnings Overview]

Thanks, Dorian, and good afternoon, everyone. Thank you for joining us. I'd also like to welcome Paul to the call for the first time.

We started 2025 with a strong first quarter, building on our momentum from last year. We've now met or exceeded guidance for six consecutive quarters while consistently driving financial and operational improvements across the business.

The four key headlines from Q1 are: continuing GAAP profitability, improving credit performance, responsible originations growth, and ongoing expense discipline.

1. First, we were GAAP profitable again in Q1, continuing the momentum we regained in Q4.
    - Our Q1 net income of $9.8 million was a $36 million improvement year-over-year and drove an ROE of 11%. Adjusted Net Income of $19 million represented a $15 million year-over-year increase.
    - Moreover, we generated $34 million of Adjusted EBITDA, a $32 million increase. We achieved these results primarily through a combination of originations growth, ongoing expense discipline and improved credit performance.
    - I want to reiterate that we expect to be profitable on a GAAP basis for full year 2025.
2. Regarding improved credit performance,
    - Our annualized net charge-off rate was 12.2%, which was at the low end of our guidance range. Importantly, our underlying trends remained positive, with dollar net charge-offs down year-over-year for the sixth consecutive quarter.
    - Our 30-plus day delinquency rate was 4.7%, marking the fifth consecutive year-over-year decline, in this instance by 56 basis points.
        - I'm pleased to inform you that following the first quarter, our 30-plus day delinquency rate declined further to 4.5% at the end of April.
    - The guidance Paul will share reflects lower net charge-off rates in the quarters ahead.
3. Third, originations were $469 million during Q1, up 39% year over year. It's important to note that this growth reflects the unusually low baseline from 1Q24. Secured personal loans accounted for 19% of our 1Q25 personal loan growth. This is constructive to credit quality because losses on secured personal loans were approximately 500 basis points lower than unsecured personal loans last year. Furthermore, $32 million, or 7%, of Q1 originations, were sold to partners. For Q2, we expect year-over-year growth in the 10% range, supported by continued outperformance in secured personal loans. Sequentially, we still expect originations to rise from Q1's $469 million to a higher level in Q4,

aligning with our typical seasonal pattern. However, given current macroeconomic uncertainty, we're prudently moderating our full year 2025 originations growth outlook to approximately 10%, down from our prior 10 to 15% range, while maintaining tight credit standards.
4. And lastly, we reported $93 million in operating expenses, down 15% year-over-year. We reduced total expenses while increasing our marketing expenditure by $4 million, or 24%, which drove our originations growth. We continue to expect 2025 GAAP operating expenses of approximately $390 million, or $97.5 million per quarter on average.

Slide 5 [Strategic Priorities]

Now, let me update you on our progress across our three strategic priorities: improving credit outcomes, strengthening business economics, and identifying high-quality originations.

1. Regarding improving credit outcomes, we continue to adjust our models based upon member behavior and trends observed in the communities we serve. We're making further adjustments to better align risk levels by loan amount based upon recent vintage performance, and to enhance our V12 credit model with additional data on new members.
2. On strengthening business economics, I'm pleased that our Q1 Adjusted ROE was 21%. We are confident in our progress towards consistently attaining full year GAAP ROEs in the 20 to 28% range over the longer term.
3. And, we're continuing to identify high-quality originations by reinvesting in marketing, targeting new members with higher levels of free cash flow, and supporting our best existing members—all within our conservative credit standards. We also remain focused on expanding our secured personal loans portfolio, which we grew by 59% year-over-year to $178 million, or to 7% of our owned portfolio in the first quarter.

Slide 3 [1Q25 Earnings Overview]

Finally, I'd like to preview our revised 2025 guidance. While we acknowledge the uncertainty in today's economic environment, it's worth noting that Oportun, founded in 2005, has weathered multiple macro shocks, beginning with the global financial crisis, and consistently emerged stronger. We continue to monitor key indicators such as inflation, unemployment, fuel prices and evolving government policies, alongside our internal performance metrics. Supported by our more efficient cost structure and improved credit performance, this positions us to remain agile and well-prepared as conditions evolve.

Despite the uncertain environment, our guidance reflects our commitment to continue to drive performance improvement. Paul will share with you that, factoring in both our Q1 performance and the tapering of our originations growth expectations to 10%, we're reiterating our full year 2025 Adjusted EPS expectations. Our Adjusted EPS guidance range of $1.10 to $1.30 continues to reflect strong growth of 53 to 81% over 2024's Adjusted EPS of $0.72.

In summary, we turned the corner in 2024 and continued to make progress in Q1. We are focused on executing our three strategic priorities and ensuring that momentum continues. 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

Slide 4 [Performance vs. Guidance]

Thanks Raul, and good afternoon everyone. As you can see on **Slide 5,** we had a strong first quarter, exceeding the high end of our total revenue and Adjusted EBITDA guidance, while coming in at the favorable end of our annualized net charge-off rate guidance.

Slide 6 [First Quarter Highlights]

As shown on **Slide 6**, we delivered total revenue of $236 million in the first quarter. We were GAAP profitable for the second consecutive quarter with $9.8 million of net income and diluted EPS of $0.21. We were also profitable on an adjusted basis for the fifth consecutive quarter with Adjusted Net Income of $18.6 million, and an Adjusted EPS of $0.40.

While maintaining credit discipline, originations of $469 million were up 39% year-over-year, which as Raul mentioned reflected an unusually low baseline in Q424. Sequentially, originations were down 10%, from Q4's $522 million, consistent with the typical seasonality we've observed in prior years.

Total revenue of $236 million declined by $15 million, or 6% year-over-year. This decline was primarily due to the absence of $11 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 was accretive to our bottom line.

Our total net decrease in fair value of $73 million was primarily driven by current period net charge-offs of $81 million. Furthermore, higher yielding assets drove a favorable $12 million mark-to-market adjustment on our loan portfolio.

First quarter interest expense of $57 million was up $3 million year-over-year as sub-3% pandemic-era ABS issuances continued to pay down.

Net revenue was $106 million, up 34% year-over-year, as lower fair value marks and lower net charge-offs more than offset lower total revenue and higher interest expense. As a reminder, we elected to stop accounting for new debt financings using the fair value method in 2023, and as a result we expect the fair value impact on our asset backed notes to be minimal after this year, as prior financings approach maturity.

Operating expenses were $93 million, down 15% from the prior-year, reflecting our ongoing cost discipline. As Raul mentioned, we continue to expect full year 2025 operating expenses of approximately $390 million, averaging $97.5 million a quarter, for a 5% reduction from 2024.

Adjusted EBITDA, which excludes the impact of fair value mark-to-market adjustments on our loan portfolio and notes, was $34 million in the first quarter. This reflected a significant year-over-year increase of $32 million, driven by cost reductions and credit performance improvement. As a result, our Adjusted EBITDA margin reached 14.2%, up 13.4 percentage points year-over-year.

Adjusted Net Income increased to $19 million, an improvement of $15 million from last year, principally driven by our reduced operating expenses along with improved credit performance. Adjusted EPS increased year-over-year from $0.09 to $0.40.

Slides 7-9 [Credit Performance]

Next, I'd like to provide some additional color on our strong Q1 credit performance:

- 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 generally 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 Q1, the front book had an annualized net charge-off rate of 11.5%, 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 4% of the loan portfolio at quarter-end but accounting for 14% of gross charge-offs. We 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 12.2% in the first quarter which was at the low end of guidance. Our Q1 net charge-off dollars declined by 5% while we reduced our 30-plus day delinquency rate by 56 basis points, which bodes well for future credit performance.
- So in summary, we continue to feel good about the quality of the credit we are originating.

Slide 11 [Capital and Liquidity]

Regarding our capital and liquidity, as shown on **Slide 11**, we de-leveraged by reducing our debt-to-equity ratio from 7.9x to 7.6x quarter-over-quarter, supported by GAAP profitability and $101 million in operating cash flow, of which $29 million was used to pay down debt. We've now reduced leverage meaningfully from 3Q24's peak level of 8.7x.

In late April, and following the close of the first quarter, we fully satisfied the $12.5 million in mandatory payments 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.

As of March 31, total cash was $231 million, of which $79 million was unrestricted and $152 million was restricted. Further bolstering our liquidity was $317 million in available funding capacity under our warehouse lines.

Our continued access to the capital markets is well established. Since June 2023, Oportun has raised approximately $3 billion in diversified financings, including whole loan sales, securitizations, and warehouse facilities from fixed income investors and banks. The company maintains an exemplary record in the ABS market having completed 24 transactions and issued $6.3 billion in notes to date from the Oportun shelf.

As a reminder, in January we issued $425 million in ABS notes, which freed up warehouse capacity for future originations. The transaction was a significant success, oversubscribed by more than seven times and pricing at a 6.95% weighted average yield—127 bps lower than our previous transaction in August 2024.

We also 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, and our available funding capacity at the end of April was $417 million.

Slide 12 [Guidance]

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

- Total Revenue of $237 to $242 million
- Annualized net charge-off rate of 11.90% plus or minus 15 basis points, and
- Adjusted EBITDA of $29 to $34 million

Our Q2 total revenue guidance reflects a 4% year-over-year decline at the midpoint, which is almost entirely due to the absence of the prior year's credit card revenue.

Our Q2 Adjusted EBITDA guidance of $32 million at the midpoint reflects disciplined expense management and growth over 2Q24's level of $30 million.

We expect our Q2 annualized net charge-off rate to be 11.9% at the midpoint of guidance, down approximately 40 basis points year-over-year.

We are reiterating all aspects of our full year 2025 guidance, including:

- Total Revenue of $945 to $970 million
- Annualized net charge-off rate of 11.5% plus or minus 50 basis points
- Adjusted EBITDA of $135 to $145 million
- Adjusted Net Income of $53 to $63 million
- Adjusted EPS of $1.10 to $1.30

Our full year guidance reflects our first quarter performance, the uncertain macroeconomic environment, and a slight tapering of our full year originations growth expectation from our prior 10 to 15% range, to around 10%.

Slide 14 [Unit Economics]

Before I turn it back to Raul, I'd like to update you on our progress towards our long-term unit economics targets. 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 Q1. Adjusted ROE was 21%, which was a 17 percentage point year-over-year improvement. The increase was driven principally by cost reductions, improved credit performance and a higher loan yield.

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 to have carried 2024's momentum into 2025 by being GAAP profitable for the second consecutive quarter, with a GAAP ROE of 11% and an Adjusted ROE of 21%;
- Second, we are closely monitoring the macroeconomic environment, have factored it into our outlook, and are adjusting our underwriting and expenses as needed; and
- Finally, we're reiterating our full year 2025 guidance expectations for revenue, adjusted earnings and Adjusted EBITDA. Our Adjusted EPS guidance range of $1.10 to $1.30 reflects strong growth of 53% to 81%, and we continue to expect to be GAAP profitable on a full year basis.

Our strategic focus on improving credit performance, strengthening business economics, and prioritizing high quality originations is delivering consistent improvements in our performance. I'm deeply grateful to our employees and shareholders for their unwavering commitment as we continue advancing on this journey.

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.