<u>Cover slide</u>

Operator
Welcome to Oportun Financial Corporation's Third Quarter 2023 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 third quarter 2023 results are Raul Vazquez, Chief Executive Officer, and Jonathan Coblentz, 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, 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 September 30, 2023. 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 third quarter 2023 financial supplement and the appendix section of the third quarter 2023 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

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

Today, I'll discuss our third quarter financial performance and update you on Oportun's areas of focus. Let me begin with the following summary of our Q3 performance.

We increased revenue by 7.0% year-over-year and set a new quarterly record of $268 million. This top-line performance demonstrates the resilience of our business.

We reached our quarterly GAAP operating expense target of $125 million ahead of schedule. At $123 million in Q3, GAAP operating expenses were our lowest in two years and a 10% reduction sequentially. Additionally, we achieved another post-IPO record for adjusted operating efficiency of 40.8%, attributable to our prudent cost management.

We're also working to ensure that Oportun is well funded to grow in a responsible and sustainable fashion. We recently executed new personal loan financing agreements totaling up to $267 million with two of our primary funding partners. That brings our total executed funding agreements since June to $967 million, and exemplifies the confidence that fixed income investors have in the quality of our loans.

While there were highlights to be proud of in Q3, we know we still have work to do to deliver the value that we, and our shareholders, expect. Our performance versus our prior guidance was mixed. We outperformed the top-end of the range for total revenue and fell within the range for annualized net charge-offs at 11.8%, which represented sequential improvement in our loss rate of more than 70 basis points. I am, however, disappointed that at $16 million, our Adjusted EBITDA fell well short of the $35 to $40 million range we provided. This shortfall was driven by fair value adjustments to our Adj. EBITDA calculation and interest expense.

Turning to credit, the dominant factor continues to be the performance of our back book of loans that was originated prior to the material tightening we made in July of 2022. We are seeing some of our members continue to struggle with the higher prices in our economy, and since our last earnings call, we have started to see some deterioration in our Q3 2022 vintage, which was the first quarterly vintage originated under our tighter criteria. As you can see on **Slide 9**, after 12 months of performance, we are now seeing cumulative net charge-offs for that vintage of 6.1%, or approximately 60 basis points higher than the comparable 2019 vintage.

As you can also see on that page, Q4 2022 and the 2023 vintages continue to be in line with 2019 or slightly better. As I've mentioned in prior earning calls, we didn't just tighten back in July 2022; we took more tightening actions with respect to our returning loans in December of 2022. And, we have continued to make adjustments throughout 2023 to fine tune our performance as the macro backdrop remains uncertain due to the return of higher gas prices and ongoing inflation that are impacting our hardworking members to varying degrees.

Given these trends and some softening in our late stage roll rates starting at the end of September, which contributed to our delinquencies increasing by 10 basis point year-over-year, we are taking up our guidance for full-year 2023 net charge-off rate by 50 bps above the midpoint of our prior range to reflect updated guidance of 12.2% plus or minus 10 basis points.

The increase in expected losses drove a reduction in the fair value of our loans and, along with unfavorable impact from our asset-backed notes at fair value and other fair value adjustments, contributed to our recording an Adjusted Net Loss of $18 million for the quarter, or an Adjusted Loss Per Share of $0.46.

Let me now shift to the actions we are taking to offset our increase in losses and enhance profitability. Today, we are announcing $80 million in further annualized operating expense reductions that will get us down to $105 million in quarterly run rate expenses by the end of 2024.

These operating expense reductions will be affected by an approximately 18% reduction in our corporate staff as well as other non-compensation expense savings. I recognize how difficult this is for those employees affected, and I want to thank them for all of their contributions to Oportun.

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Before handing off to Jonathan, I also want to spend a few minutes reiterating our strategic priorities and how we are adapting them to the current environment.

Oportun holistically addresses two of the most fundamental challenges to financial health and resilience - access to responsible and affordable credit, and adequate savings. Accordingly, we have been allocating our spending to the two most proven and profitable parts of the business: Unsecured Personal Loans and our Savings product.

Our primary focus remains the largest component of our business - our Unsecured Personal Loan product. We will continue to grow at prudent levels and enhance this product's profitability.

Our Savings product continues to be profitable on a cash flow basis and was the primary driver of our 39% year-over-year growth in non-interest income this quarter.

So, to enhance our focus in this challenging economic environment, we're taking the following actions:

- First, we're increasing our focus as a management team and reducing expenses by sunsetting our embedded finance partnership with Sezzle, and discontinuing our investing and retirement products. The elimination of these products and initiatives will contribute to the operating expense reduction I mentioned earlier, and will simplify our business.
- Second, we are reviewing strategic options for our credit card portfolio and will update the market when we have concluded that process.
- Finally, I'm pleased to announce that we're significantly expanding our secured personal loan product to approximately 40 states through our partnership with Pathward®, N.A.. Our secured personal loan product is highly synergistic with our unsecured personal loan product. Responsibly expanding secured lending, collateralized by members' autos, will allow us to better serve those who need larger loans while reducing credit exposure for

Oportun. Annualized net-charge offs for secured personal loans are currently over 300 basis points lower than for unsecured personal loans on a year-to-date basis. We expect to complete the expansion of our secured personal loans footprint by the end of 2025.

With that, I will turn it over to Jonathan for additional details on our third quarter financial performance and our updated 2023 guidance.

Jonathan Coblentz, Chief Financial Officer & Chief Administrative Officer

Slide 6

Thanks Raul, and good afternoon everyone. As Raul mentioned, we made progress on a number of fronts in the third quarter, yet we have more to do to consistently drive strong results. I remain highly confident that our continued credit tightening actions, further cost initiatives and streamlining of our product offerings will enable us to enhance profitability in 2024 and beyond.

As shown on **Slide 6,** Oportun delivered record total revenue of $268 million, although the impact of net change in fair value drove an Adjusted Net Loss of $18 million.

We continue to be focused on quality rather than quantity with originations of $483 million, which were down 24% year-over-year. Sequentially, we were virtually flat from the second quarter as we further tightened our credit posture.

Total revenue of $268 million, representing year-over-year growth of 7%, outperformed our guidance range due to slightly higher portfolio yield resulting from our pricing increases. Our 32.5% portfolio yield increased by 30 basis points from Q2 to Q3.

We remain on track for our year-end portfolio yield to be approximately 200 basis points higher than the level at the end of 2022. We have increased yield while remaining committed to our 36% APR cap.

Net revenue was $85 million, down 42% year-over-year, due to an unfavorable net change in fair value and higher interest expense compared to 2022.

Current period charge-offs of $88 million were the primary driver of our total net decrease in fair value of $136 million.

As Raul mentioned, we have seen an increase in our 30+ day delinquencies as well as some softening in late stage roll rates. As a result, the fair value price of our loans decreased to 100.4% as of September 30, and resulted in a $9 million mark-to-market decrease. This was driven by our increasing of our remaining cumulative net charge off assumption by 58 basis points to 11.9%.

Also contributing negatively towards our earnings was a $15 million mark-to-market increase in our asset-backed notes, resulting from a 22 basis point increase in weighted average price to 94.3% and continued regular amortization of several of our ABS deals.

Interest expense of $47 million was up $20 million year-over-year, primarily driven by increased debt outstanding, and the increase in our cost of debt to 6.8% versus 3.9% in the year-ago period.

Turning now to operating expenses and efficiency, we are continuing to see the benefits of our previously announced cost structure optimization initiatives. Our $123 million in total operating expenses during Q3 was the lowest quarterly figure we've reported since the same quarter in 2021. And, in comparison, our Q3 total revenue was 69% higher.

As Raul described, we are enacting further cost reduction measures aimed at lowering our GAAP operating expenses to a quarterly run rate of $105 million by the fourth quarter of 2024, resulting in $80 million in annualized savings. We expect the headcount reductions announced today to result in a one-time charge in the fourth quarter of approximately $7 million. Excluding this charge, we still expect operating expense to be at or below $125 million in the fourth quarter of 2023.

I'd like to highlight for you on **Slide 7** how our expense reductions indicate that Oportun is now significantly more efficient. Our opex ratio, or annualized operating expenses to average managed principal balance, was 15.0% as of 3Q23, 539 basis points better than the quarter in which we went public 4 years ago. Our adjusted opex ratio, which excludes stock-based compensation expense and certain non-recurring charges, was even lower at 13.4% for 3Q23, as we reduced adjusted operating expenses by 19% while we grew total revenue by 7%.

In the third quarter, our sales and marketing expenses were just under $19 million, down 2% sequentially and down 13% year-over-year as part of our expense discipline and continued credit tightening.

For the quarter, we recorded Adjusted net loss of $18 million, compared to an $8 million net profit in the prior-year quarter, and an adjusted net loss per share of $0.46 versus prior-year net earnings per share of $0.25.

Adjusted EBITDA was $16 million in the third quarter, a sequential improvement of $11 million compared to last quarter's $4 million. On a year-over-year basis, it reflected a $22 million increase compared to the negative $6 million in Adjusted EBITDA we reported in the prior-year quarter. Nevertheless our Adjusted EBITDA fell short of our $35 to $40 million guidance. As Raul mentioned, this was principally due to fair value adjustments to our Adjusted EBITDA calculation and interest expense.

Slide 8

Now, on **Slide 8**, let me discuss Q3 credit performance. Our Annualized Net Charge-Off Rate of 11.8% was within our guidance range. This compared to 9.8% in the prior-year period and 12.5% in the second quarter. We were pleased that our risk adjusted yield, which deducts charge-offs from portfolio yield, increased by 107 basis points sequentially to 20.8%.

Due to our 30+ day delinquency rate increasing by 25 basis points to 5.5% and higher late stage roll rates, we do anticipate our fourth quarter annualized net charge-off rate to increase by 50 basis points at the midpoint of our guidance, which I'll detail for you shortly, as compared to our Q3 charge-off rate. Although inflation has generally abated, prices have not come down on an absolute basis and gas prices were about 10% higher on average during the third quarter from the first quarter trough, causing further economic stress on our member base.

Slide 9

In prior earnings calls we discussed the fact that the credit performance of our portfolio has two distinct drivers: first, the post-July 2022 origination vintages, made over the last 15 months after our significant credit-tightening, which we refer to as our front book. And second, the originations made prior, which we refer to as our back book. The back book continues to represent the bulk of our delinquencies and charge-offs, but also continues to shrink. The back book declined by $0.4 billion in the third quarter to $0.9 billion, and is anticipated to further decline to $0.6 billion as of year-end.

While it continues to be true that our elevated losses are being driven by back book vintages, as Raul explained earlier, we saw some deterioration in the vintages from the third quarter of 2022. **Slide 9** shows the loss rates for recent loan vintages compared to their respective pre-pandemic vintages. To be clear, this Q3 2022 front book vintage is still performing much better than the back book. We believe the reason recent vintages are performing in line with 2019 performance is that we took further actions in December 2022 that are benefiting 2023 vintages.

As we discussed with you last quarter, we've continued to improve the credit quality of our originations. The percentage of underwritten loans with Vantage scores of 660 or greater was 33% for 2Q22 prior to our significant credit tightening, and increased to 49% during 3Q23. Higher Vantage scores of recent originations also help explain why we continue to see 2019 level performance from the 2023 vintages.

Slide 10

Regarding our capital and liquidity, net cash flow from operations for the third quarter set a new record of $107 million, up 58% year over year, which supported net debt repayment of $24 million along with loan originations. We've repaid debt on a net basis during each quarter this year for a total reduction of $99 million. This debt repayment also includes $7 million of principal amortization on our residual facility which bears interest at SOFR + 11%, so we are beginning to reduce the balance of our expensive corporate debt. As of September 30, total cash was $200 million, of which $82 million was unrestricted and $118 million was restricted.

Turning now to funding, as Raul mentioned, we recently entered into two new personal loan financing agreements totaling $267 million, in addition to the June and August transactions we discussed on our last earnings call totaling $700 million. The recent $197 million private structured financing with Castlelake, its affiliates and other investors will fund existing and newly originated loans for a 2-year revolving period at a fixed rate of interest and marks our second funding transaction of the year with Castlelake. The new debt financing will be accounted for on an amortized cost basis.

The $70 million whole loan flow sale agreement with long-time partner Ellington will fund loans to new members. These whole loan sales will be accounted for as off-balance sheet with servicing fee income being recorded on our income statement. This will be a re-initiation of our Access Loan program to support borrowers that we currently aren't lending to. When we offered the Access Loan program in past years, it was successful in increasing the number of returning members that Oportun could serve, and we expect to start seeing this benefit again in the latter half of 2024.

Slide 11

Turning now to our guidance as shown on **Slide 11**, our outlook for the fourth quarter is:

- Total Revenue of $260 to $265 million;
- Annualized net charge-off rate of 12.3% plus or minus 15 basis points
- Adjusted EBITDA of $5 to $10 million

I'll note that this fourth quarter Adjusted EBITDA guidance range is well below that implied by our prior guidance. This reduction of our Adjusted EBITDA outlook is due to the same issues that drove our miss for the third quarter. Our fourth quarter Adjusted EBITDA expectations are also impacted by higher charge-offs due to the trends we've been speaking with you about today and higher than previously forecast interest expense. We expect fourth quarter interest expense to be in the $51 to $53 million vicinity.

Our guidance for the full year is:

- Total Revenue of $1.054 billion to $1.059 billion,
- Annualized net charge-off rate of 12.2% plus or minus 10 basis points,
- Adjusted EBITDA of $0.5 to $5.5 million

I want to be frank by acknowledging that this is not how we anticipated or wanted to close 2023. Nevertheless my conviction remains, fortified by the decisive actions we announced today and our increasingly tight underwriting posture, that we are on track to markedly improve our profitability into 2024 and beyond.

Raul, back over to you.

Raul Vazquez, Chief Executive Officer

Thanks, Jonathan.

Cover slide

Before my final remarks, I want to inform you that as disclosed in our filing today, Carl Pascarella has decided to retire from his position on Oportun's Board of Directors to pursue other opportunities. With Carl's departure, the Board has selected Neil Williams to assume the role of Lead Independent Director. On behalf of the rest of the Board and the Company, I would like to sincerely thank Carl for almost 14 years of service as a director and for his significant contributions to Oportun. I also look forward to working closely with Neil in his new capacity as Lead Independent Director.

In closing, I want to first emphasize the progress that we have made to position Oportun for profitable, sustainable growth. We remain highly focused on improving the profitability of our business by reducing costs further, enhancing our unit economics and streamlining our product suite. Our capital partners have demonstrated their confidence in the underlying strength of our business model with the $967 million in new funding agreements we've executed since June.

In summary, I am highly confident that the initiatives we spoke about today will result in the emergence of a leaner, more profitable Oportun. We look forward to updating you on the progress of this evolution when we report on our fourth quarter results and provide our 2024 guidance early next year.

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.