Oportun
Fourth Quarter 2024 Conference Call Script
Wednesday, February 12, 2025

Cover slide

Operator
Welcome to Oportun Financial Corporation's Fourth 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 fourth quarter 2024 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, including projected Adjusted ROE attainment, 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-K filing for the year ended December 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 fourth quarter 2024 financial supplement and the appendix section of the fourth 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 [4Q24 Earnings Overview]

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

We ended the fourth quarter with stronger than anticipated results, demonstrating that we've turned the corner in improving our financial performance and are entering 2025 with momentum, discipline and focus. We met or exceeded the guidance expectations that we set for the fourth quarter, and every quarter throughout 2024. The four key headlines from Q4, in my view, are: a return to GAAP profitability, improved credit performance, a return to originations growth, and ongoing expense discipline.

1. First, and importantly, Q4 marked our return to GAAP profitability. Our $9 million of net income was a $51 million year-over-year improvement and drove an ROE of 10%. Adjusted Net Income of $22 million was a $30 million year-over-year improvement, and we generated an Adjusted ROE of 25%. Moreover, we generated $41 million of Adjusted EBITDA, a $31 million increase from last year's level and exceeded the top end of our guidance by 37%. We were able to achieve these results through improved credit performance, a return to originations growth, and continued expense discipline. I'd like to reiterate that we expect to be profitable on a GAAP basis for full year 2025.
2. Second, regarding improved credit performance:
    a. Our net charge-off rate was 11.7%, an improvement of 55 basis points year-over-year and the lowest level of losses since the third quarter of 2022. In dollars, the positive trends continued as our net charge-offs improved year-over-year for the fifth consecutive quarter, in this instance by 12%.
    b. I'm also pleased with our ongoing progress in reducing 30-plus day delinquencies, which were 4.8% for the quarter and better by 113 basis points year-over-year. That’s the fourth consecutive quarter of year-over-year improvement.
3. Third, originations were $522 million during Q4, returning to growth at 19% year-over-year. Even with a conservative credit box, we increased the number of loans originated by 23%.

4. And lastly, we reported $89 million in operating expenses, down 31% year-over-year, which was our lowest quarterly figure since the second quarter of 2019. Without the benefit from one-time items, our 4Q24 operating expense would have been approximately $95 million, still below the $97.5 million target we set at the beginning of 2024.

Slides 4-5 [Strategic Priorities]

Building on our 2024 progress, we will continue to advance our three key strategic priorities in 2025, which are: improving credit outcomes, fortifying business economics, and identifying high-quality originations.

1. Regarding credit outcomes, we expect to reduce our net charge-off rate in 2025 by benefiting from our V12 credit model for a full year and from our back book of loans shrinking to just 1% of our owned portfolio by year-end;
2. We expect to attain an Adjusted ROE in the teens, up from 8% in 2024, by generating 10 to 15% full year originations growth, returning to revenue growth by year-end, and targeting a 5% full year decline in operating expenses;
3. And, we'll continue to identify high-quality originations under our current conservative credit standards by reinvesting in marketing and targeting high quality new members while continuing to support our best existing members. We are also prioritizing the growth of secured personal loans within our owned portfolio, as they offer superior unit economics compared to unsecured loans. During 2024, secured personal loan losses ran approximately 500 basis points lower compared to unsecured personal loans, with fourth quarter revenue per loan approximately 75% higher due to larger average loan sizes.

Slide 3 [4Q24 Earnings Overview]

Finally, I'd like to provide a preview of 2025 guidance. Jonathan will share with you that we're increasing our full year Adjusted EPS expectations by 7% at the midpoint. Our updated Adjusted EPS range is $1.10 to $1.30, reflecting a 53% to 81% increase over 2024's $0.72.

In summary, our results are a testament to our team's execution and we are at the beginning of a new chapter for Oportun. With the strong foundation we worked diligently to build in 2024, we remain more focused than ever to drive growth and shareholder value in 2025. With that, I will turn it over to Jonathan for additional details on our financial and credit performance, as well as our guidance.

Jonathan Coblentz, Chief Financial Officer & Chief Administrative Officer

Slide 6-7 [Fourth Quarter Highlights]

Thanks Raul, and good afternoon everyone. As Raul mentioned, you can see on **Slide 6** that we had a strong fourth quarter in which we met or exceeded the guidance expectations that we set. We're confident that Oportun is poised to carry this momentum into 2025 by further enhancing our profitability, including by being GAAP profitable on a full year basis, as we track towards our long-term financial objectives.

As shown on **Slide 7**, Oportun delivered total revenue of $251 million in the fourth quarter. We were GAAP profitable at $9 million of net income with diluted EPS of $0.20, and we were profitable on an adjusted basis for the fourth consecutive quarter with Adjusted Net Income of $21.5 million, for Adjusted EPS of $0.49.

While maintaining credit discipline, originations of $522 million were up 19% year-over-year. Sequentially, originations were up 9%, aligning with the typical seasonal pattern for a ramp throughout the year.

Total revenue of $251 million exceeded the top-end of our guidance by $1 million and declined by 4% year-over-year, due to a decline in average daily principal balance in our personal loans portfolio as a result of prior credit tightening actions. This impact was partially offset by a 155 basis points increase in portfolio yield to 34.2%. Given the successful completion of the sale of our credit card portfolio in mid-November, it's important to keep in mind that while the sale was accretive to the bottom line, our credit card business contributed $4 million of total revenue for 4Q24 and $34 million for the full year.

Our total net decrease in fair value of $84 million was primarily driven by current period charge-offs of $80 million, which improved 12% year-over-year.

Q4 interest expense of $74 million was up $22 million year-over-year, primarily due to a one-time $17 million non-cash write-off of deferred financing costs related to the repayment of our prior corporate financing facility as part of the November refinancing. This amount was slightly below the $18 million estimate I indicated on our third quarter earnings call.

Net revenue was $93 million, up 30% year-over-year, as lower net charge-offs and lower non-cash fair value marks on our asset backed notes more than offset lower total revenue and higher interest expense. Excluding the one-time, non-cash write-off of $17 million of deferred financing fees included in interest expense that I mentioned a moment ago, net revenue would have been $110 million, up 53% year-over-year. As a reminder, we elected to stop fair valuing new debt financings in 2023, and we expect the fair value impact to be minimal after this year as prior financings approach maturity.

Turning now to operating expenses and efficiency, our $89 million in total operating expenses in Q4 reflected a 31% reduction from the prior-year period. I'd note that this figure includes approximately $6 million in one-time benefits, including those related to capitalization of previous accrued expenses associated with our debt refinancing, true-ups related to estimated costs of exiting the credit card product, and other benefits that we wouldn't expect to occur as part of a normalized run rate. Without the benefit from these one-time items, our 4Q24 operating expense would have been approximately $95 million, still below our $97.5 million target. Accordingly, expect $97.5 million in quarterly operating expenses during 2025, reflecting our $95M exit rate plus a modest increased investment in marketing to drive originations growth.

Adjusted Net Income was $22 million, a $30 million improvement compared to the prior-year quarter, while Adjusted EPS of $0.49 was an increase of $0.70 versus last year. The improvement was principally driven by our sharply reduced cost structure, along with higher net revenue.

Adjusted EBITDA, which excludes the impact of fair value mark-to-market adjustments on our loan portfolio and notes, was $41 million in the fourth quarter. This reflected a year-over-year increase of $31 million, or 315%, driven by our sharply reduced cost structure along with lower net charge-offs. I'm pleased that our Adjusted EBITDA margin increased year-over-year by 12.6 percentage points from 3.8% to 16.3%. Our Adjusted EBITDA performance exceeded the high-end of our guidance by $11 million, primarily on lower than anticipated operating expenses and net charge-offs.

Slides 8-10 [Credit Performance]

Let me now shift to more details on our strong Q4 credit performance, another testament to the significant progress that we've made:

- 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 8** of our earnings presentation, our more recent credit vintages have outperformed their predecessors and, as a result, the losses on our front book twelve-plus months after disbursement are now running up to 500 basis points lower than losses on our back-book, whereas previously we had seen a 400 basis point improvement. This improvement is driven by our continued fine tuning of our credit model.
    - Furthermore, you can see our annualized net charge-off rate for the quarter by front-book versus back-book on **Slide 9**. In Q4, the front book had an annualized net charge-off rate of 10.5%, which is within the 9 to 11% net charge-off range that we are targeting in our unit economics model. Importantly, the back book continues to decline, and as of the end of 2024 it was only 5% of our year-end loan portfolio, but 18% of gross charge-offs. As Raul mentioned, we expect the back book to further diminish to 1% of our portfolio at the end of 2025.
- Finally, as you can see on **Slide 10**, our NCO rate of 11.7% in 4Q24 improved 55 basis points compared to last year and was our lowest rate since 3Q22.
- So in summary, we continue to feel very good about the quality of the credit we are originating.

Slide 13 [Oportun Member Profile]

As shown on **Slide 13**, I'm also confident in the stability of our hardworking members - an outcome driven by our credit underwriting model, which actively seeks to identify people with strong stability in their communities. Prior to approving a loan to a new or existing borrower, we verify employment for all borrowers, who for fourth quarter originations had a median gross income of approximately $50,000. Additionally, our borrowers had an average of 5.7 years at their current job and 6.4 years at their current residence. Moreover, 91% of our approved members had their loan proceeds disbursed to their U.S. bank accounts, rather than opting to receive disbursements in the form of a check.

Slide 14[Capital and Liquidity]

Regarding our capital and liquidity, as shown on **Slide 14**, we de-leveraged by reducing our debt-to-equity ratio from 8.7x to 7.9x quarter-over-quarter, as we were GAAP profitable and utilized part of the $91 million of our operating cash flow to reduce debt outstanding by $49 million.

As of December 31, total cash was $215 million, of which $60 million was unrestricted and $155 million was restricted. Further bolstering our liquidity was $227 million in available funding capacity under our warehouse lines and remaining whole loan sale agreement capacity of $45 million.

Following the fourth quarter in January, we issued $425 million in ABS notes, which freed up $438 million in warehouse capacity for future originations. The transaction was a significant success, being over seven times oversubscribed and pricing at a 6.95% weighted average yield—127 bps lower than our previous August 2024 transaction.

Our access to capital markets is well established. Since June of 2023, Oportun has raised approximately $2.8 billion in diversified financings, including whole loan sales, securitizations and warehouse agreements from fixed income investors and banks. We anticipate we will come to market a few more times this year with ABS deals.

Slide 15-16 [Guidance]

Turning now to our guidance as shown on **Slide 15**, our outlook for the first quarter is:

- Total Revenue of $225 to $230 million
- Annualized net charge-off rate of 12.30% plus or minus 15 basis points
- Adjusted EBITDA of $18 to $22 million

On a year-over-year basis, our Q1 guidance reflects:

- A 9% decline in total revenue, largely due to the absence of $12 million of revenue we generated from the credit card portfolio in the prior-year quarter.
    - Excluding credit card revenue, our 1Q guidance reflects only a 5% decline on an organic basis; and
- An approximately 7% year-over-year decline in the average daily portfolio balance.

Despite the revenue decline, our 1Q25 Adjusted EBITDA guidance at the midpoint of $20 million highlights our continued focus on operating expense management, and is an $18 million improvement over 1Q24's $2 million.

We expect 1Q25's annualized NCO rate at the midpoint of our guidance to increase by about 30 basis points year-over-year. However, as you can see on the bottom of **Slide 16**, we expect 1Q25 dollar net charge-offs to decline in the 4% range. And, if 1Q25's average daily portfolio balance were to remain flat year-over-year rather than to decline by 7%, the 1Q25 annualized NCO rate would be approximately 80 basis points lower at 11.5%. We expect the elevated NCO rate in 1Q25 to be temporary. As you will see from the full year guidance for net charge-offs that I will share with you in a moment, we expect the average annualized net charge-off rate for 2Q through 4Q to be 11.2%.

Our guidance for the full year is:

- Total Revenue of $945 million 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

Despite our anticipated 3% decline in average daily principal balance and absence of $34 million in credit card revenue, the top end of our full year revenue guidance reflects modest growth over last year's $968 million total revenue, excluding credit card. As Raul mentioned, we anticipate returning to total quarterly revenue growth on a reported basis prior to year-end, and we expect to grow full-year 2025 originations in our 10 to 15% target range.

The midpoint of our full-year 2025 annualized net charge-off rate guidance at 11.5% reflects a 50 basis point reduction from 2024's 12.0% level and implies ongoing improvement following Q1. As you can see from the bottom of **Slide 16**, we expect full year 2025 net charge-offs in dollars to decline in the 7% range. Furthermore, were 2025 average daily principal balance to be flat with 2024 rather than to decline by approximately 3% as anticipated, the NCO rate would be 30 basis points lower at 11.2%, even closer to our 9 to 11% target range.

Our full-year 2025 Adjusted EPS range is a 7% uplift at the midpoint from the preliminary expectations we first provided in October of last year. I'm pleased that, with full year operating expenses expected to decline in the 5% range, our 2025 Adjusted EBITDA and Adjusted EPS expectations at the midpoints imply strong year-over-year growth of 33% and 67%, respectively.

Slide 17 [Unit Economics]

Next, 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 metric actuals for comparison because they remove non-recurring items and provide a better sense of our future run rate. It's clear on **Slide 17** that we've made significant progress in Q4. Adjusted ROE was 25%, which was a 33 percentage point year-over-year improvement. The increase was driven principally by cost reductions, a higher loan yield, and lower net charge-offs.

Full year 2024's adjusted ROE was 8%, a 23 percentage point improvement over full year 2023.

Slide 18 [Key Drivers to Reach ROE Target]

Although we're pleased that we reached the 20 to 28% Adjusted ROE range in the fourth quarter at 25%, it's our objective to attain this level on an annual basis. **Slide 18** shows how we will continue to focus on improving our credit performance, reducing expenses as a percentage of owned principal balance, and reducing leverage to drive improvement in shareholder returns.

Raul, back over to you.

Cover slide [Closing Remarks]

Raul Vazquez, Chief Executive Officer

Thanks, Jonathan.

Before I finish, I have an important announcement to share. Jonathan has decided to retire and will be stepping down as Chief Financial Officer and Chief Administrative Officer. On behalf of the entire Oportun team, I want to congratulate him and express my deepest gratitude for his more than 15 years of dedicated service.

Jonathan joined Oportun in 2009, when our loan portfolio was $5 million, and built the highly professional finance function we benefit from today. His contributions have been instrumental in our growth, including by helping to expand our loan portfolio to $3 billion and providing key leadership in taking us public in 2019.

Jonathan will continue as our CFO until March 28th to support a smooth transition to Casey Mueller, who will serve as our interim CFO. We have engaged an executive search firm to conduct a thorough process to identify Jonathan’s successor, considering both internal and external candidates.

Casey has been with Oportun since 2018, joining us from OneMain to help make our finance function public company ready. He currently serves as our Principal Accounting Officer and Global Controller, with additional responsibility for FP&A. I am confident in his ability to provide strong leadership, ensuring continuity and maintaining the momentum we've discussed today.

On a personal note, Jonathan has been an incredible partner to me over the past thirteen years, and I will miss working with him. I know I speak for everyone at Oportun in wishing him all the best in his next chapter.

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

- First, we're pleased with our return to GAAP profitability in the fourth quarter, and with our quarterly GAAP ROE of 10% and Adjusted ROE of 25%;
- Second, we have clear line of sight towards substantially improving our profitability from 2024's levels and we expect to be GAAP profitable on a full year basis. Confident in our outlook, we've increased our full year 2025 Adjusted EPS expectations to be $1.10 to $1.30, reflecting 53% to 81% year-over-year growth; and
- Finally, we believe we will generate an Adjusted ROE in the teens this year while making progress towards 20% to 28% ROEs on an annual basis.

We see a bright future ahead for Oportun by remaining laser focused on improving credit outcomes, fortifying business economics, and identifying high-quality originations. I want to thank our talented employees for all that we accomplished together in 2024, and for their ongoing dedication to our mission of empowering members to build a better future.

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.