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# The way forward.

2021 HALF YEAR REPORT



OUR MISSION

Financially  
empower  
the next  
generation.



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# Directors' Report

FOR THE HALF YEAR ENDED JUNE 30, 2021



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The Directors present their report, together with the consolidated financial statements of Sezzle Inc. (ASX: SZL, Sezzle, or Company) and its wholly-owned subsidiaries for the half year ended June 30, 2021.

## DIRECTORS

The following individuals were Directors of Sezzle for the half year ended June 30, 2021:

Charlie Youakim	Co-founder, Executive Chairman, and Chief Executive Officer
Paul Paradis	Co-founder, Executive Director, and President
Paul Lahiff	Independent Non-Executive Director
Kathleen Pierce-Gilmore	Independent Non-Executive Director
Paul Purcell	Independent Non-Executive Director
Mike Cutter	Independent Non-Executive Director

The Directors listed above each served as Director throughout the duration of the period and through the date of this report.

## PRINCIPAL ACTIVITIES

We are a purpose-driven payments company that is on a mission to financially empower the next generation. Launched in 2017, we have built a digital payments platform that allows merchants to offer their consumers a flexible alternative to traditional credit. Through our payments products we aim to enable consumers to take control over their spending, be more responsible, and gain access to financial freedom. Our vision is to create a digital ecosystem benefiting all of our stakeholders—merchant partners, consumers, employees, communities and investors—while continuing to drive ethical growth.

## FINANCIAL RESULT

The Company reported an after-tax net loss of \$30.4 million for the half year ended June 30, 2021, compared to \$8.2 million for the prior comparative period.

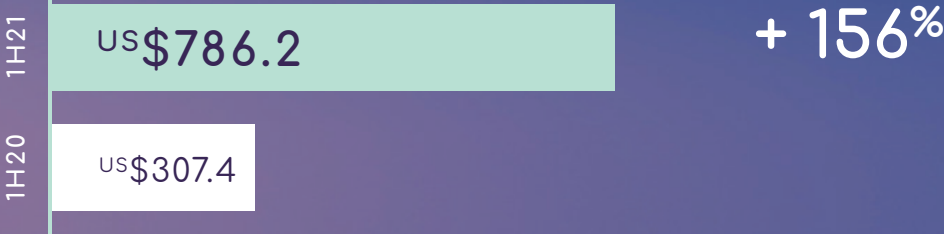


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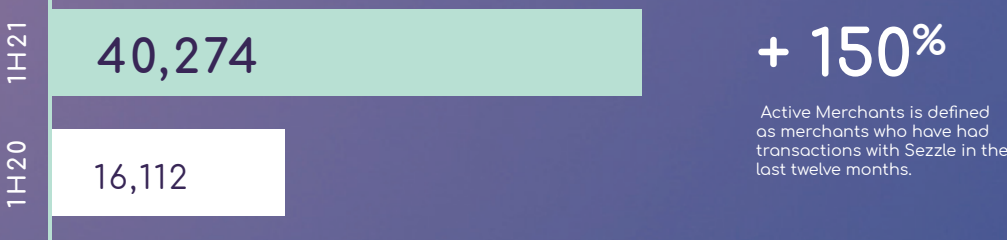


# Key Operating Metrics

UNDERLYING  
MERCHANT  
SALES (UMS)  
(in millions)

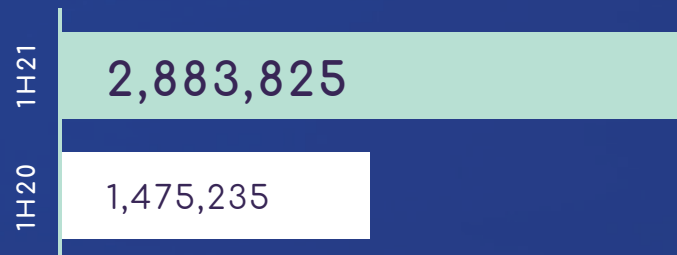


ACTIVE  
MERCHANTS



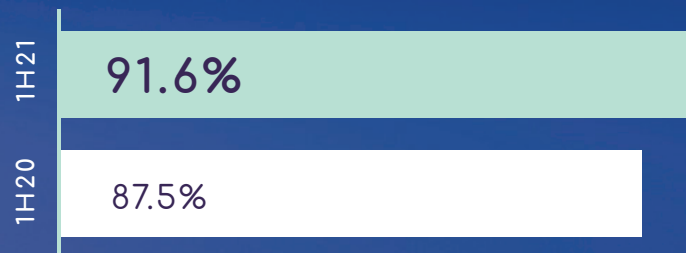


## ACTIVE CONSUMERS

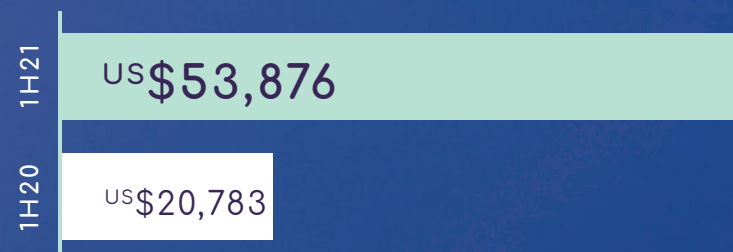
**+ 96%**

Active Consumers is defined as unique end users who have placed an order with Sezzle within the last twelve months.

## REPEAT USAGE

**+ 4.1pp**

Repeat usage is calculated as the percentage of cumulative orders made by returning consumers to date relative to total cumulative orders to date.

TOTAL INCOME  
(in thousands)**+ 159%**

# Management's Discussion and Analysis

## OVERVIEW

We are a purpose-driven payments company that is on a mission to financially empower the next generation. Launched in 2017, we have built a digital payments platform that allows merchants to offer their consumers a flexible alternative to traditional credit. As of June 30, 2021, our platform has supported the business growth of over 40,000 Active Merchants while serving approximately 2.9 million Active Consumers. Through our payments products we aim to enable consumers to take control over their spending, be more responsible, and gain access to financial freedom. Our vision is to create a digital ecosystem benefiting all of our stakeholders—merchant partners, consumers, employees, communities and investors—while continuing to drive ethical growth.

The Sezzle Platform connects consumers with merchants via our core proprietary, digital payments platform that instantly extends credit at the point-of-sale. Our core product is differentiated from traditional lenders through our credit-and-capital-light approach, and we believe that it is mutually beneficial for our merchants and consumers given the network effects inherent in our platform. We enable consumers to acquire merchandise upfront and spread payments over four equal, interest-free installments over six weeks. We realize high repeat usage rates by many of our consumers, with the top 10% of our consumers measured by Underlying Merchant Sales (UMS, as defined below) transacting an average of 49 times per year based on the transaction activity during the rolling twelve months ended June 30, 2021, although historical transaction activity is not an indication of future results.

Our core product offering is completely free for consumers who pay on time; instead, we generate a substantial majority of our revenues by charging our merchants fees in the form of a Merchant Discount Rate. We recently launched Sezzle Up, an upgraded version of the core Sezzle experience which provides a credit-building solution for new-to-credit consumers, helping consumers adopt credit responsibly and build their credit history. We have also expanded our product suite to provide consumers with access to a long-term installment lending option through a partnership.

A critical component of our business model is the ability to effectively manage the repayment risk inherent in allowing consumers to pay over time. To that end, a team of Sezzle engineers and risk specialists oversee our proprietary systems, identify transactions with elevated risk of fraud, assess the credit risk of the consumer and assign spending limits, and manage the ultimate receipt of funds. These systems have allowed us to maintain an approximately 90% order approval rate in our core product as of June 30, 2021. Further, we believe repayment risk is more limited relative to other traditional forms of unsecured credit because consumers primarily settle 25% of the purchase value upfront. Additionally, ongoing user interactions allow us to continuously refine and enhance the effectiveness of these platform tools through machine learning.

## FACTORS AFFECTING RESULTS OF OPERATIONS

We have set out below a discussion of the key factors that have affected our financial performance and that are expected to impact our performance going forward.



### *Adoption of the Sezzle Platform*

Our ability to profitably scale our business is reliant on adoption of the Sezzle Platform by both consumers and merchants. Changes in our Active Merchant and Active Consumer bases (as such terms are defined below) have had, and will continue to have, an impact on our results of operations. It is costly for us to recruit (and in some cases retain) Active Merchants. Turnover in our merchant base could result in higher than anticipated over-head costs.

We believe that we have built a sustainable, transparent business model in which our success is aligned with the financial success of our merchants and consumers. We earn fees from our merchants predominately based on a percentage of the UMS value plus a fixed fee per transaction, or the Merchant Discount Rate. We pay our merchants for transaction value upfront net of the merchant fees owed to us and assume all costs associated with the consumer payment processing, fraud and payment default. Merchant-related fees comprised approximately 82% of our Total Income for the six months ended June 30, 2021.

### *Growth and Diversification of Merchants offered on the Sezzle Platform*

We depend on continued relationships with our current merchants or merchant partners and on the acquisition of new merchants to maintain and grow our business. We added 13,584 Active Merchants during the six months ended June 30, 2021, totaling 40,274 Active Merchants on the platform at the end of the same period. Although for the six months ended June 30, 2021, we did not currently depend on any one merchant for more than 7% of Merchant-related fees, our business is still at a relatively early stage and our merchant revenue is not as diversified as it might be for a more mature business.

Our integration into scaled e-commerce platforms is expected to give more merchants the opportunity to offer Sezzle as a payment option at checkout, and we expect that our partnerships with larger retailers such as Target will familiarize more consumers with the Sezzle Platform.

In addition, investment in sales, co-marketing, and offering of competitively priced merchant fee rates and incentives are critical for us to onboard new and retain existing merchants and grow utilization of the Sezzle Platform. We currently provide our merchants with a toolkit to grow their businesses. Our merchants gain access to our marketing efforts that begin with a launch campaign to introduce new brands to Sezzle consumers. We face intense competitive pressure to bring new larger merchants on to our platform. In order to stay competitive, we have and may continue to need to adjust our pricing or offer incentives to larger merchants to increase payments volume. These pricing structures with merchants include up-front cash payments, fee discounts, rebates, credits, performance-based incentives, marketing, and other support payments that impact our revenues and profitability. We expect to continue to incur substantial costs to acquire these larger merchants. Certain agreements contain provisions that may require us to make payments to certain of our merchants and are contingent on us and/or the merchant meeting specified criteria, such as achieving volume targets and implementation benchmarks. If we are not able to increase our volumes as predicted, the financial impact of these incentives, fee discounts, and rebates, these arrangements with certain merchants will impact our results of operations and financial performance.

There is a risk that we may lose merchants for a variety of reasons, including a failure to meet key contractual or commercial requirements, or merchants shifting to other service providers, including competitors or in-house offerings. We also face the risk that our key partners could become competitors of our business if such partners are able to determine how we have designed and implemented our model to provide our services.

### *New Products*

Our expanding product suite enables us to further promote our mission of financial empowerment, and the adoption of these products by our consumers is expected to drive operating and financial performance. In partnership with TransUnion, we engineered Sezzle Up, an upgraded version of the core Sezzle experience that supports consumers in building their credit scores by permitting us to report their payment histories to credit bureaus. As these consumers pay on time, their credit scores and spending limits on the Sezzle Platform can increase, which is likely to result in larger purchases that will generate an increase in merchant fees. Other parts of our product suite and proprietary merchant interface are specifically designed to streamline the merchant experience. For example, we believe that our Sezzle Virtual Card bolsters our omnichannel offering and provides a rapid-installation, point-of-sale option for brick-and-mortar retailers through its compatibility with Apple Pay and Google Pay. With the Sezzle Virtual Card, consumers can enjoy in-store shopping with the convenience of immediately tapping into the Sezzle Platform with the "swipe" of their card at the point-of-sale. In addition, we recently partnered with Ally Financial to offer consumers monthly fixed-rate installment-loan products that extend up to 60 months, which will support consumer purchases for big ticket items, and those transactions earn us a fee from Ally Financial. We continue to seek out new partners to adopt our existing products and strategize on new products to complement our platform and core products, which we believe will have an impact on continued growth of our business.

### *Growth of our Consumer Base*

To continue to grow our business, we need to maintain and increase our existing Active Consumer base and introduce new consumers to our platform. We rely heavily on our growing merchant base to offer our core product to new consumers at the point of sale for online transactions. We have developed new offerings such as Sezzle Spend to enable our merchants to offer rewards and promotions to new consumers. We have consistently added Active Consumers each quarter since our inception, while the number of transactions per Active Consumer has typically increased each quarter as well. We added 652,736 Active Consumers during the six months ended June 30, 2021, totaling 2,883,825 Active Consumers on the platform at the end of the same period. In addition, we realize high repeat usage rates as a result of our differentiated offering, with the top 10% of our consumers measured by UMS transacting 49 times per year based on the transaction activity during the rolling twelve months ended June 30, 2021, although historical transaction activity is not an indication of future results.

### *Managing Credit Risk*

A critical component of our business model is the ability to effectively manage the repayment risk inherent in allowing consumers to pay over time. To that end, a team of Sezzle engineers and risk specialists oversee our proprietary systems, identify transactions with elevated risk of fraud, assess the credit risk of the consumer and assign spending limits, and manage the ultimate receipt of funds. Because consumers primarily settle 25% of the purchase value upfront at the point of sale, we believe repayment risk is more limited relative to other traditional forms of unsecured consumer credit. Further, ongoing user interactions allow us to continuously refine and enhance the effectiveness of these platform tools through machine learning.



We absorb the costs of all uncollectible receivables from our consumers. The provision for uncollectible accounts is a major component of our operating expenses, and excessive exposure to consumer repayment failure may impact our results of operations. We believe our systems and processes are highly effective and allow for predominantly accurate, real-time decisions in connection with the consumer transaction approval process. As our consumer base grows, the availability of data on consumer repayment behavior will also better optimize our systems and ability to make real-time consumers repayment capability decisions on a go forward basis. Optimizing repayment capacity decisions of our current and future consumer base may reduce our provision for uncollectible accounts and related charge-offs by providing optimal credit limits to qualified consumers.

### *Maintaining our Capital-Light Strategy*

Maintaining our funding strategy and our low cost of capital is important to our ability to grow our business. We have created an efficient funding strategy which, in our view, has allowed us to scale our business and drive rapid growth. The speed with which we are able to recycle capital due to the short-term nature of our products has a multiplier effect on our committed capital.

Our funding helps drive our low cost of capital. We rely on more efficient revolving credit facilities with high advance rates to fund our receivables over time and also use merchant account payables as an alternative low-cost funding source.

### *General Economic Conditions and Regulatory Climate*

Our business depends on consumers transacting with merchants, which in turn can be affected by changes in general economic conditions. For example, the retail sector is affected by such macro-economic conditions as unemployment, interest rates, consumer confidence, economic recessions, downturns or extended periods of uncertainty or volatility, all of which may influence customer spending, and suppliers' retailers' focus and investment in outsourcing solutions. This may subsequently impact our ability to generate income. Additionally, in weaker economic environments, consumers may have less disposable income to spend and so may be less likely to purchase products by utilizing our services and bad debts may increase as a result of consumers' failure to repay the loans originated on the Sezzle Platform. Our industry is also impacted by numerous consumer finance and protection regulations, both domestic and international, and the prospects of new regulations, and the cost to comply with such regulations, have an ongoing impact on our results of operations and financial performance.

### *International Growth Plans*

In addition to our continued investment in the United States, global expansion remains a priority for us. We launched operations in Canada in 2019, commenced operations in India and certain countries in Europe in 2020, and are currently in the early stages of expansion into Brazil. We will continue to extend our platform into attractive new geographies that are ripe for adoption of our product offering. Thus far, we have focused on entering new markets organically rather than through acquisitions. Our approach involves identifying a strong, local entrepreneurial team to lead our expansion. We may be required to expend significant additional capital to implement our international expansion plans.

### *Seasonality*

We experience seasonality as a result of spending patterns of our Active Consumers. Sezzle Income and UMS in the fourth quarter have historically been strongest for us, in line with consumer spending habits during the holiday shopping season, which has typically been accompanied by increased charge-offs when compared to the prior three quarters. This is most evident in merchant fees as these are recognized when the terms of the executed merchant agreement have been fulfilled and the merchant successfully confirms the transaction.

## *Impact of COVID-19*

The COVID-19 pandemic has had, and continues to have, a significant impact on the U.S. economy and the markets in which we operate. We believe that our performance during this period demonstrates the value and effectiveness of our platform, the resilience of our business model, and the capabilities of our risk management and underwriting approach.

Throughout 2020 our collections of consumer notes receivable improved. While this improvement was primarily driven by improvements in our consumer underwriting process, consumers also had improved ability for payment as a result of stimulus offered through the CARES Act. During 2020, we also enacted an expansion of fee forgiveness and payment flexibility programs offered to consumers as a response to the COVID-19 pandemic. We also expect that certain of the COVID-19 related sector trends underlying our performance may not continue at current levels.

In March 2020, we also rolled out a work-from-home program for our employees. In addition, we implemented restrictions in travel and attendance of group events, including industry-related conferences. These COVID-19 related measures resulted in lower than anticipated operating expenses. We expect future selling, general, and administrative expenses to continue to increase as a result of planned efforts to begin working from the office under a hybrid part-time in person model. We also anticipate incurring additional travel related expenses for our sales and marketing teams in 2021 and future periods.

## **KEY OPERATING METRICS**

### *Underlying Merchant Sales*

UMS is defined as the total value of sales made by merchants based on the purchase price of each confirmed sale where a consumer has selected the Sezzle Platform as the applicable payment option. UMS does not represent revenue earned by us, is not a component of our income, nor is included within our financial results prepared in accordance with GAAP. However, we believe that UMS is a useful operating metric to both us and our investors in assessing the volume of transactions that take place on the Sezzle Platform, which is an indicator of the success of our merchants and the strength of the Sezzle Platform.

For the six months ended June 30, 2021 and 2020, UMS totaled \$786.2 million and \$307.4 million, respectively, which is an increase of 156%. The growth in UMS is driven by our continued improvements in growing our Active Merchant and Active Consumer base, year over year.

### *Active Merchants and Active Consumers*

Active Merchants is defined as merchants who have had transactions with us in the last twelve months. As of June 30, 2021, we had 40,274 Active Merchants, an increase of 51% when compared to the 26,690 Active Merchants as of December 31, 2020. There is no minimum required number of transactions to meet the Active Merchant criteria.

Active Consumers is defined as unique end users who have placed an order with us within the last twelve months. Active Consumers increased to 2,883,825 at June 30, 2021, an increase of 29% when compared to our 2,231,089 Active Consumers as of December 31, 2020.



## COMPONENTS OF RESULTS OF OPERATIONS

### *Total Income*

We refer to our primary component of total income as "Sezzle Income". Sezzle Income is comprised primarily from fees paid by merchants in exchange for our payment processing services. These fees are applied to the underlying sales to consumers passing through our platform and are predominantly based on a percentage of the consumer order value plus a fixed fee per transaction. Consumer installment payment plans typically consist of four installments, with the first payment of 25% of the consumer order value made at the time of purchase and subsequent payments coming due every two weeks thereafter. Additionally, consumers may reschedule their initial installment plan by delaying payment for up to two weeks, for which we generally earn a rescheduled payment fee. The total of merchant fees and rescheduled payment fees, less note origination costs (underwriting costs incurred that result in a successful transaction with the consumer), are collectively referred to as Sezzle Income within the consolidated statements of operations and comprehensive loss. Sezzle Income is then recognized over the average duration of the note using the effective interest rate method.

We also earn income from consumers in the form of account reactivation fees, recorded within "Account reactivation fee income" (a component of Total Income) on the consolidated statements of operations and comprehensive loss. When a consumer's payment fails in the automated payment process the consumer must pay a fee, which we refer to as an Account Reactivation Fee, before the consumer is able to use the Sezzle Platform again. We allow, at a minimum and subject to state jurisdiction regulation, a 48-hour waiver period where fees are dismissed if the installment is paid by the consumer. Account reactivation fees are recognized at the time the fee is charged to the consumer, less an allowance for uncollectible amounts.

### *Personnel*

Personnel primarily comprises all wages and salaries paid to employees, contractor payments, employer-paid payroll taxes and employee benefits, and stock and incentive-based compensation.

### *Transaction Expense*

Transaction expense primarily comprises processing fees paid to third parties to process debit, credit and ACH payments received from consumers, merchant affiliate program and partnership fees, and consumer communication costs. We incur merchant affiliate program and partnership fees when consumers make purchases with merchants who either were referred by another merchant or are associated with partner platforms with which we have a contractual agreement. We incur customer communication costs when we notify the consumer about the transaction status and upcoming payments. Communications are primarily made via text message directly to the consumer.

### *Third-Party Technology and Data*

Third-party technology and data primarily comprises costs related to fraud prevention, other cloud-based computing services, and costs of failed loan applications. Underwriting costs incurred that result in successfully originated loans are an element of Sezzle Income and recognized as a reduction of the overall income and, therefore, these costs are not included in third-party technology and data.

### *Marketing, Advertising, and Tradeshows*

Marketing, advertising, and tradeshows primarily comprises costs related to marketing, sponsorships, advertising, attending tradeshows, promotions, and co-marketing Sezzle's brand with its merchants.

### *General and Administrative*

General and administrative primarily comprises legal, compliance, audit, tax, and other consultation costs; third-party implementation fees; and charitable contributions.

### *Provision for Uncollectible Accounts*

We calculate our provision for uncollectible accounts on notes receivable on an expected-loss basis. We maintain an allowance for uncollectible accounts at a level necessary to absorb estimated probable losses on principal and reschedule fee receivables from consumers. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. We use our judgment to evaluate the allowance for uncollectible accounts based on current economic conditions and historical performance of consumer payments.

### *Net Interest Expense*

We incur interest expense on a continuous basis as a result of draws on our revolving credit facility to fund consumer notes receivable as well as our Merchant Interest Program, whereby merchants may defer their payments owed by us in exchange for interest. The interest paid on borrowings under our revolving credit facility and Merchant Interest Program are based on LIBOR.

### *Income Tax Expense*

Income tax expense consists of income taxes in various jurisdictions, primarily U.S. Federal and state income taxes, and also Canada and the other foreign jurisdictions in which we operate. Tax effects of transactions reported in the consolidated financial statements consist of taxes currently due. Additionally, we record deferred taxes related primarily to differences between the basis of receivables, property and equipment, and accrued liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Given our history of losses, a full valuation allowance is recorded against our deferred tax assets.

### *Other Comprehensive Income*

Other comprehensive income is comprised of foreign currency translation adjustments.

## **RESULTS OF OPERATIONS**

### *Total Income*

Total income is comprised of Sezzle income and account reactivation fees. Sezzle income for the six months ended June 30, 2021 and 2020 totaled \$46.4 million and \$17.9 million, respectively, which is an increase of 159%.



This increase compared to the prior comparative period is driven by growth in Underlying Merchant Sales. For the six months ended June 30, 2021 and 2020, merchant fees totaled \$44.4 million and \$17.4 million, respectively, or 95.8% and 97.4% of Sezzle income, respectively. The decrease in merchant fees as a percentage of Sezzle income during the six months ended June 30, 2021, when compared to the six months ended June 30, 2020, was due to higher rates of account reschedule fee forgiveness as a result of the economic conditions surrounding the onset of the COVID-19 pandemic.

Total account reactivation fee income recognized totaled \$7.5 million and \$2.9 million for the six months ended June 30, 2021 and 2020, respectively. Account reactivation fees as a percentage of total income was 13.9% for the six months ended June 30, 2021 and 2020.

### *Personnel*

Personnel costs increased by 182% to \$27.7 million for the six months ended June 30, 2021, from \$9.8 million for the six months ended June 30, 2020. The increase in personnel costs is primarily due to our overall growth in employee headcount.

Recorded within personnel, equity and incentive-based compensation totaled \$12.2 million and \$3.2 million for the six months ended June 30, 2021 and 2020, respectively, which is a 283% increase. The increase in equity and incentive-based compensation for the six months ended June 30, 2021 was a result of appreciation in our stock price when compared to 2020, in addition to more employees being offered equity and incentive-based compensation.

### *Transaction Expense*

Transaction expenses were \$18.5 million and \$8.7 million for the six months ended June 30, 2021 and 2020, respectively.

Payment processing costs were \$13.5 million and \$6.7 million for the six months ended June 30, 2021 and 2020, respectively. This 102% increase in costs for the six months ended June 30, 2021 and 2020 is primarily driven by the increase in volume of orders transacted by consumers and the related processing of payments associated with those orders. Overall, average per-order processing fee costs has decreased compared to the prior comparative period due to third party rate discounts due to higher payment volumes, in addition to a larger portion of our consumers making installment payments via ACH in connection with the rollout of Sezzle Up.

Merchant affiliate program and partnership fees are incurred by us when consumers make purchases with merchants who either were referred by another merchant, or are associated with a partner platforms with which we have contractual agreements. Such costs were \$3.2 million and \$1.4 million for the six months ended June 30, 2021 and 2020, respectively. The increase in costs is related to our increased volume of orders originating from merchants that were referred or are associated with our partnered platforms.

Other costs included in transaction expense were \$1.8 million and \$0.6 million for the six months ended June 30, 2021 and 2020, respectively. Such costs are comprised of consumer communication costs and consumer and merchant service adjustments. The increase in costs is a result of increased Active Consumers on the Sezzle Platform.

### *Third-Party Technology and Data*

Third-party technology and data costs totaled \$2.3 million and \$0.9 million for the six months ended June 30, 2021 and 2020, respectively. The increase in costs is driven by growth in Active Consumers, as well as increases in costs related to fraud prevention, obtaining data related to failed loan applications, connecting consumer bank accounts to the Sezzle Platform, and software used by our employees in the ordinary course of business.

### *Marketing, Advertising, and Tradeshows*

Marketing, advertising, and tradeshows costs increased to \$3.4 million for the six months ended June 30, 2021, compared to \$0.8 million for the six months ended June 30, 2020. The increase in costs are a result of increased initiatives in digital advertising, to co-market the Sezzle brand with our merchants, and for expenses related to various social media promotional campaigns.

### *General and Administrative*

General and administrative costs increased to \$6.3 million for the six months ended June 30, 2021, compared to \$1.7 million for the six months ended June 30, 2020. The increase in costs for the six months ended June 30, 2021 and 2020 is primarily due to third-party implementation costs paid to merchants, legal fees incurred in connection with our Securities and Exchange Commission filing and for the closing of our line of credit, other public company reporting costs in connection with our listing on the Australian Securities Exchange, the completion of our 2020 financial statement audit, and charitable contributions.

### *Provision for Uncollectible Accounts*

Total provision for uncollectible accounts was \$22.4 million for the six months ended June 30, 2021, compared to \$5.1 million for the six months ended June 30, 2020. As a percentage of Sezzle Income, the provision for uncollectible accounts was 48.3% and 28.7% for the six months ended June 30, 2021 and 2020, respectively. In the first half of 2020, we had a relatively low provision for uncollectible accounts as a result of: (a) our tightening of credit to consumers as an initial response to COVID-19, and (b) overall improved collections driven in part by the U.S. government stimulus offered to many of our consumers through the CARES Act. Beginning in the second half of 2020 and continuing into the first half of 2021, we've continued to perform universe expansion testing with our new enterprise merchants, which allowed us to test various credit underwriting strategies on larger merchants—resulting in higher provisions. Additionally, our non-integrated product offerings have resulted in higher loss rates in the first half of 2021. Such increases in loss rates during the first quarter of 2021 were offset with the stimulus checks offered through the American Rescue Plan Act of 2021. These factors are the primary reasons for the increase in our provision for uncollectible accounts, along with increases in UMS and Active Consumers.



### Net Interest Expense

Net interest expense was \$2.6 million and \$1.9 million for the six months ended June 30, 2021 and 2020, respectively. This 39% increase in costs for the six months ended June 30, 2021 and 2020 is a result of increased utilization of our line of credit and an increase in the number of Active Merchants participating in the Merchant Interest Program, offset against the lower borrowing rate on our new line of credit, which went into effect in February 2021.

### Income Taxes

Income tax expense for the six months ended June 30, 2021 was \$40,477. Such costs were \$8,375 for the six months ended June 30, 2020. Our effective income tax rate for the six months ended June 30, 2021 was 0.1%, consistent with the prior year, is minimal due to a full valuation allowance, and comprised of minimum income taxes owed to state and local jurisdictions. Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2020. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. On the basis of this evaluation, a full valuation allowance is recorded against our net deferred tax assets as of June 30, 2021 and December 31, 2020.

### Other Comprehensive Income

We had \$503,451 and \$9,885 of foreign currency translation adjustments recorded within other comprehensive income for the six months ended June 30, 2021 and 2020, respectively. Such costs are a result of the financial statements of our non-U.S. subsidiaries being translated into U.S. dollars in accordance with ASC 830, "Foreign Currency Matters". We expect to record foreign currency translation adjustments in future years and changes will be dependent on fluctuations in foreign currencies of countries in which we have operations.

## LIQUIDITY AND CAPITAL RESOURCES

We incurred net losses from operating activities for the six months ended June 30, 2021 and 2020. For the six months ended June 30, 2021 and 2020, we incurred a net loss of \$30.4 million and \$8.2 million, respectively. As of June 30, 2021, we had cash, cash equivalents, and restricted cash of \$60.0 million and working capital of \$63.2 million.

We believe our existing cash, cash equivalents, and restricted cash, along with cash flow from operations, will be sufficient to meet our working capital and investment requirements beyond the next 12 months.

	For the six months ended	
	June 30, 2021	June 30, 2020
Net Cash (Used for) Provided from Operating Activities	\$ (5,590,699)	\$ 2,527,371
Net Cash Used for Investing Activities	(672,292)	(246,051)
Net Cash (Used for) Provided from Financing Activities	(23,316,704)	16,813,678
Effect of exchange rate changes on cash	502,735	13,509
Net (decrease) increase in cash, cash equivalents, and restricted cash	\$ (29,579,695)	\$ 19,094,998

### *Operating Activities*

Net cash (used for) provided from operating activities was (\$5.6) million and \$2.5 million for the six months ended June 30, 2021 and 2020, respectively. Net cash used for operating activities for the six months ended June 30, 2021 is comprised of our net losses totaling \$30.4 million, non-cash adjustments of \$32.6 million, and changes in operating assets and liabilities of (\$7.8) million.

For the six months ended June 30, 2021, significant non-cash adjustments includes provisions for uncollectible notes and other receivables of \$24.9 million and equity based compensation and restricted stock vested totaling \$6.0 million. Significant changes in operating assets and liabilities includes increases in notes receivable of \$41.2 million, due to increased Active Consumers and UMS, and increases in merchant accounts payable of \$27.8 million, due to increased Active Merchants and their participation in the Merchant Interest Program.

### *Investing Activities*

Net cash used for investing activities during the six months ended June 30, 2021 was \$0.7 million, compared to \$0.2 million during the six months ended June 30, 2020. Cash outflows for investing activities were primarily used for purchasing computer equipment, as well as payments of salaries to employees who create capitalized internal-use software.

### *Financing Activities*

Net cash (used for) provided from financing activities during the six months ended June 30, 2021 was (\$23.3) million, compared to \$16.8 million during the six months ended June 30, 2020. Significant financing activities during the six months ended June 30, 2021 included a net pay down on our line of credit of (\$19.0) million, payments of debt issuance and extinguishment costs totaling (\$2.7) million related to the closing of our new revolving credit facility, and the repayment of the principal on our Paycheck Protection Program (PPP) loan of (\$1.2) million.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. These principles require us to make certain estimates and judgments that affect the amounts reported in our consolidated financial statements. We base our estimates on historical experience and on various other assumptions that management believes to be reasonable. Our actual results may differ materially from our estimates because of certain accounting policies requiring significant judgment. To the extent that there are material differences between our estimates and actual results, our future consolidated financial statements will be affected.

We evaluate our significant estimates on an ongoing basis, including, but not limited to, estimates related to our allowance for uncollectible accounts, equity-based compensation, income taxes, and internally developed intangible assets. We believe these estimates have the greatest risk of affecting our consolidated financial statements; therefore, we consider these to be our critical accounting policies and estimates.



### *Receivables and Credit Policy*

Notes receivable represent amounts from uncollateralized consumer receivables generated from the purchase of merchandise. The original terms of the notes for our core product are to be paid back in equal installments every two weeks over a six-week period. We do not charge interest on the notes to consumers. We defer direct note origination costs over the average life of the notes receivable using the effective interest rate method. These net deferred costs are recorded within notes receivable, net on the consolidated balance sheets. Notes receivable are recorded at net realizable value and are recorded as current assets. We evaluate the collectability of the balances based on historical performance, current economic conditions, and specific circumstances of individual notes, with an allowance for uncollectible accounts being provided as necessary.

Other receivables represent the net realizable value of consumer account reactivation fees receivable, merchant accounts receivable, and merchant processing fees receivable. Consumer account reactivation fees receivable, less an allowance for uncollectible accounts, represent the amount of account reactivation fees we reasonably expect to receive from consumers. Receivables from merchants represent amounts merchants owe us relating to transactions placed by consumers on their sites. All notes receivable from consumers, as well as related fees, outstanding greater than 90 days past due are charged off as uncollectible. It is our practice to continue collection efforts after the charge-off date.

### *Sezzle Income*

We receive our income primarily from fees paid by merchants in exchange for our payment processing services. These fees are applied to the underlying sales to consumers passing through our platform and are predominantly based on a percentage of the consumer order value plus a fixed fee per transaction. Consumer installment payment plans typically consist of four installments, with the first payment made at the time of purchase and subsequent payments coming due every two weeks thereafter. Additionally, consumers may reschedule their initial installment plan by delaying payment for up to two weeks, for which we generally earn a rescheduled payment fee. The total of merchant fees and rescheduled payment fees, less note origination costs, are collectively referred to as Sezzle income within the consolidated statements of operations and comprehensive loss. Sezzle income is initially recorded as a reduction to notes receivable, net within the consolidated balance sheets. Sezzle income is then recognized over the average duration of the note using the effective interest rate method.

### *Equity Based Compensation*

We maintain stock compensation plans that offer incentives in the form of non-statutory stock options and restricted stock to employees, directors, and advisors of the Company. Equity based compensation expense reflects the fair value of awards measured at the grant date and recognized over the relevant vesting period. We estimate the fair value of stock options without a market condition on the measurement date using the Black-Scholes option valuation model. The fair value of stock options with a market condition is estimated, at the date of grant, using the Monte Carlo Simulation model. The Black-Scholes and Monte Carlo Simulation models incorporate assumptions about stock price volatility, the expected life of the options, risk-free interest rate, and dividend yield. For valuing our stock option grants, significant judgment is required for determining the expected volatility of our common stock and is based on the historical volatility of both its common stock and its defined peer group. The fair value of restricted stock awards and restricted stock units that vest based on service conditions is based on the fair market value of our common stock on the date of grant. The expense associated with equity-based compensation is recognized over the requisite service period using the straight-line method. We issue new shares upon the exercise of stock options and vesting of restricted stock units.

## *Income Taxes*

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of receivables, property and equipment, and accrued liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. A full valuation allowance is recorded against the our deferred tax assets.

We evaluate our tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. To date we have not recorded any liabilities for uncertain tax positions.

## *New Accounting Pronouncements*

We do not expect any recent accounting pronouncements issued during the six months ended June 30, 2021 to have a material effect on the Company's consolidated financial statements.

## OFF BALANCE SHEET ARRANGEMENTS

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that would have been established for the purpose of facilitating off balance sheet arrangements (as that term is defined in Item 303(a)(4)(ii) of Regulation S-K) or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships. We enter into guarantees in the ordinary course of business related to the guarantee of our performance and the performance of our subsidiaries.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity during the financial period, except as otherwise noted in this report.

## DIVIDENDS

No dividends were declared or paid to shareholders during the period.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has sought to bring material proceedings on behalf of the consolidated entity, and the consolidated entity is not a party to any material proceedings, for the purpose of taking responsibility on behalf of the consolidated entity for any such material proceedings, or for a particular step in any such proceedings.



## SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE HALF YEAR

On July 14, 2021, Sezzle agreed to issue Discover Financial Services LLC ("Discover") \$30,000,000 of the Company's common stock at a price of \$6.58 per share (A\$8.83), which was completed on July 19, 2021. The Company and Discover are finalizing a definitive commercial agreement, in which the parties propose to enter into an expanded partnership, including plans for a buy now, pay later network solution on the Discover Global Network, as well as a dedicated referral program introducing Discover credit and debit products to the Company's consumer base.





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# Consolidated Financial Statements

FOR THE HALF YEAR ENDED JUNE 30, 2021



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# Independent Auditors' Review Report



## Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors of  
Sezzle Inc. and Subsidiaries  
Minneapolis, MN  
ARBN: 633 327 358

### Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated balance sheet of Sezzle Inc. and Subsidiaries (collectively, the "Company") as of June 30, 2021, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the half year ended June 30, 2021 and 2020, and the related notes (collectively referred to as the interim consolidated financial statements). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

### Basis for Review Results

These interim consolidated financial statements are the responsibility of the Company's management. We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

### Emphasis of Matter

As discussed in Note 1 to the interim consolidated financial statements, the Company has reclassified its cost of income to transaction expense and reclassified selling, general and administrative expenses into further detail. There was no impact to operating loss, net loss, or comprehensive loss.

*Baker Tilly US, LLP*

Baker Tilly US, LLP  
Minneapolis, Minnesota  
August 16, 2021



## Consolidated Balance Sheets (unaudited)

	As of	
	June 30, 2021	December 31, 2020
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 58,184,476	\$ 84,285,383
Restricted cash, current	1,822,467	4,798,520
Notes receivable, net	99,720,294	80,807,300
Other receivables, net	1,941,455	1,403,306
Prepaid expenses and other current assets	3,093,766	1,705,919
<b>Total current assets</b>	<b>164,762,458</b>	<b>173,000,428</b>
<b>Non-Current Assets</b>		
Internally developed intangible assets, net	738,904	537,046
Property and equipment, net	505,308	375,186
Operating right-of-use assets	186,251	145,576
Restricted cash, non-current	20,000	20,000
Other assets	42,394	32,537
<b>Total Assets</b>	<b>\$ 166,255,315</b>	<b>\$ 174,110,773</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Merchant accounts payable	\$ 88,926,109	\$ 60,933,272
Operating lease liabilities	142,992	142,743
Accrued liabilities	9,687,325	6,680,870
Other payables	2,810,124	615,839
<b>Total current liabilities</b>	<b>101,566,550</b>	<b>68,372,724</b>
<b>Long Term Liabilities</b>		
Long term debt	250,000	1,470,332
Line of credit, net of unamortized debt issuance costs of \$1,468,324 and \$173,773, respectively	19,531,676	39,826,227
Other non-current liabilities	—	4,483,073
<b>Total Liabilities</b>	<b>121,348,226</b>	<b>114,152,356</b>
<b>Stockholders' Equity</b>		
Common stock, \$0.00001 par value; 750,000,000 and 300,000,000 shares authorized, respectively; 198,613,882 and 197,078,709 shares issued, respectively; 198,320,795 and 196,926,674 shares outstanding, respectively	1,978	1,970
Additional paid-in capital	128,254,422	112,640,974
Stock subscriptions: 37,017 and 64,000 shares subscribed, respectively	(43,993)	(69,440)
Treasury stock, at cost: 293,087 and 152,035 shares, respectively	(1,656,685)	(875,232)
Accumulated other comprehensive income	997,956	494,505
Accumulated deficit	(82,646,589)	(52,234,360)
<b>Total Stockholders' Equity</b>	<b>44,907,089</b>	<b>59,958,417</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 166,255,315</b>	<b>\$ 174,110,773</b>

See the accompanying Notes to the Consolidated Financial Statements.

## Consolidated Statements of Operations and Comprehensive Loss (unaudited)

	For the six months ended	
	June 30, 2021	June 30, 2020
<b>Income</b>		
Sezzle income	\$ 46,401,446	\$ 17,887,117
Account reactivation fee income	7,474,980	2,895,804
Total income	53,876,426	20,782,921
<b>Operating Expenses</b>		
Personnel	27,665,389	9,812,403
Transaction expense	18,497,334	8,706,879
Third-party technology and data	2,269,630	857,063
Marketing, advertising, and tradeshow	3,376,009	824,548
General and administrative	6,289,322	1,722,817
Provision for uncollectible accounts	22,424,183	5,134,589
Total operating expenses	80,521,867	27,058,299
Operating Loss	(26,645,441)	(6,275,378)
<b>Other Income (Expense)</b>		
Net interest expense	(2,579,727)	(1,855,539)
Other income and expense, net	(53,905)	(54,011)
Loss on extinguishment of line of credit	(1,092,679)	—
Loss before taxes	(30,371,752)	(8,184,928)
Income tax expense	40,477	8,375
Net Loss	(30,412,229)	(8,193,303)
<b>Other Comprehensive Income</b>		
Foreign currency translation adjustment	503,451	9,885
Total Comprehensive Loss	\$ (29,908,778)	\$ (8,183,418)
<b>Net Losses per Share:</b>		
Basic and diluted loss per common share	\$ (0.15)	\$ (0.05)
Basic and diluted weighted average shares outstanding	197,433,425	179,110,131

See the accompanying Notes to the Consolidated Financial Statements.



## Consolidated Statements of Stockholders' Equity (unaudited)

	Common Stock		Additional Paid-in Capital	Stock Subscriptions	Treasury Stock, At Cost	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount						
Balance at January 1, 2020	178,931,312	\$ 1,789	\$ 47,154,147	\$ —	\$ —	\$ —	\$ (19,841,620)	\$ 27,314,316
Equity based compensation	—	—	1,501,263	—	—	—	—	1,501,263
Stock option exercises	456,888	4	37,101	—	—	—	—	37,105
Restricted stock issuances and vesting of awards	25,000	—	38,687	—	—	—	—	38,687
Stock subscriptions receivable related to stock option exercises	180,416	2	8,473	(8,475)	—	—	—	—
Stock subscriptions collected related to stock option exercises	—	—	—	8,475	—	—	—	8,475
Repurchase of common stock	(343,750)	(3)	(2,231)	—	—	—	—	(2,234)
Foreign currency translation adjustment	—	—	—	—	—	9,885	—	9,885
Net loss	—	—	—	—	—	—	(8,193,303)	(8,193,303)
Balance at June 30, 2020	179,249,866	\$ 1,792	\$ 48,737,440	\$ —	\$ —	\$ 9,885	\$ (28,034,923)	\$ 20,714,194

	Common Stock		Additional Paid-in Capital	Stock Subscriptions	Treasury Stock, At Cost	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount						
Balance at January 1, 2021	196,926,674	\$ 1,970	\$ 112,640,974	\$ (69,440)	\$ (875,232)	\$ 494,505	\$ (52,234,360)	\$ 59,958,417
Equity based compensation	—	—	4,513,291	—	—	—	—	4,513,291
Stock option exercises	817,300	8	251,413	—	—	—	—	251,421
Restricted stock issuances and vesting of awards	624,606	—	1,449,791	—	—	—	—	1,449,791
Conversion of liability-classified incentive awards to stockholder's equity	—	—	9,293,035	—	—	—	—	9,293,035
Stock subscriptions receivable related to stock option exercises	93,267	—	105,918	(105,918)	—	—	—	—
Stock subscriptions collected related to stock option exercises	—	—	—	131,365	—	—	—	131,365
Repurchase of common stock	(141,052)	—	—	—	(781,453)	—	—	(781,453)
Foreign currency translation adjustment	—	—	—	—	—	503,451	—	503,451
Net loss	—	—	—	—	—	—	(30,412,229)	(30,412,229)
Balance at June 30, 2021	198,320,795	\$ 1,978	\$ 128,254,422	\$ (43,993)	\$ (1,656,685)	\$ 997,956	\$ (82,646,589)	\$ 44,907,089

See the accompanying Notes to the Consolidated Financial Statements.

# Consolidated Statements of Cash Flows (unaudited)

	For the six months ended	
	June 30, 2021	June 30, 2020
<b>Operating Activities:</b>		
Net loss	\$ (30,412,229)	\$ (8,193,303)
Adjustments to reconcile net loss to net cash (used for) provided from operating activities:		
Depreciation and amortization	339,060	184,638
Provision for uncollectible accounts	22,424,183	5,134,589
Provision for other uncollectible receivables	2,505,818	931,549
Equity based compensation and restricted stock vested	5,963,082	1,539,950
Amortization of debt issuance costs	310,475	208,527
Impairment losses on long-lived assets	—	5,287
Loss on extinguishment of line of credit	1,092,679	—
Changes in operating assets and liabilities:		
Notes receivable	(41,177,192)	(24,598,927)
Other receivables	(3,043,228)	(939,749)
Prepaid expenses and other assets	(1,394,247)	65,510
Merchant accounts payable	27,836,978	25,908,695
Other payables	2,197,599	198,454
Accrued liabilities	7,806,819	2,110,300
Operating leases	(40,496)	(28,149)
<b>Net Cash (Used for) Provided from Operating Activities</b>	<b>(5,590,699)</b>	<b>2,527,371</b>
<b>Investing Activities:</b>		
Purchase of property and equipment	(308,873)	(71,328)
Internally developed intangible asset additions	(363,419)	(174,723)
<b>Net Cash Used for Investing Activities</b>	<b>(672,292)</b>	<b>(246,051)</b>
<b>Financing Activities:</b>		
Proceeds from long term debt	—	1,220,332
Payments on long term debt	(1,220,332)	—
Proceeds from line of credit	26,666,667	27,650,000
Payments to line of credit	(45,666,667)	(12,100,000)
Payments of debt issuance costs	(1,697,705)	—
Payment of debt extinguishment costs	(1,000,000)	—
Proceeds from stock option exercises	251,421	37,105
Stock subscriptions collected related to stock option exercises	131,365	8,475
Repurchase of common stock	(781,453)	(2,234)
<b>Net Cash (Used for) Provided from Financing Activities</b>	<b>(23,316,704)</b>	<b>16,813,678</b>
Effect of exchange rate changes on cash	502,735	13,509
Net (decrease) increase in cash, cash equivalents, and restricted cash	(29,579,695)	19,094,998
Cash, cash equivalents, and restricted cash, beginning of year	89,103,903	36,624,618
<b>Cash, cash equivalents, and restricted cash, end of period</b>	<b>\$ 60,026,943</b>	<b>\$ 55,733,125</b>
<b>Noncash investing and finance activities:</b>		
Lease liabilities arising from obtaining right-of-use assets	142,597	—
Conversion of long-term incentive compensation from liability to equity	9,293,035	—
<b>Supplementary disclosures:</b>		
Interest paid	2,579,591	1,653,730
Income taxes paid	4,575	—

See the accompanying Notes to the Consolidated Financial Statements.



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# Notes to the Consolidated Financial Statements

(UNAUDITED)

FOR THE HALF YEAR ENDED JUNE 30, 2021





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## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) applicable to interim financial statements. While these consolidated financial statements and the accompanying notes thereof reflect all normal recurring adjustments that are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. These consolidated financial statements and their accompanying notes should be read in conjunction with the consolidated financial statement disclosures in our 2020 annual consolidated financial statements. Operating results reported for the six months ended June 30, 2021 might not be indicative of the results for any subsequent period or the entire year ending December 31, 2021.

Sezzle Inc. (the "Company" or "Sezzle") uses the same accounting policies in preparing quarterly and annual consolidated financial statements. The consolidated financial statements include all the accounts and activities of Sezzle Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions are eliminated during consolidation.

Sezzle operates as a single segment that consists primarily of lending to consumers located in the United States and Canada who purchase goods from its affiliated merchants. The Company currently has startup operations in India and Europe. While distinct geographic locations, the operations in both countries are still in an early growth stage. Sezzle's income and assets are primarily related to operations in North America.

None of the recent accounting pronouncements issued by the Financial Accounting Standards Board during the six months ended June 30, 2021 are within scope for the Company; therefore, it does not expect any of the recent accounting pronouncements issued to have a material effect on the Company's consolidated financial statements.

The Company has evaluated events and transactions occurring subsequent to the consolidated balance sheet as of June 30, 2021 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

Certain prior period amounts have been reclassified to conform with the current period presentation format. Notably, (a) balances previously reported as 'Cost of income' are now classified as 'Transaction expenses' and reported within operating expenses, (b) the Company has removed Gross profit from the consolidated statements of operations and comprehensive loss, and (c) the Company has disaggregated selling, general, and administrative expenses to reflect the primary components included within this line item, including: Personnel; Third-party technology and data; Marketing, advertising, and tradeshows; and General and administrative. These reclassifications had no effect on operating loss or total comprehensive loss. The components of operating expenses are comprised of the following:

- Personnel includes all salaries and wages paid to employees, contractor payments, payroll taxes, employee benefits, and stock and incentive-based compensation;
- Transaction expense primarily comprises processing fees paid to third parties to process debit, credit and ACH payments received from consumers, merchant affiliate program and partnership fees, and consumer communication costs. Sezzle incurs merchant affiliate program and partnership fees when consumers make purchases with merchants that either were referred by another merchant or are associated with partner platforms with which Sezzle has a contractual agreement. Sezzle incurs customer communication costs when Sezzle notifies the consumer about the transaction status and upcoming payments. Communications are primarily made via text message directly to the consumer;
- Third-party technology and data primarily includes costs incurred related to fraud prevention, other cloud-based computing services, and costs of failed loan applications. Underwriting costs incurred that result in successfully originated loans are an element of Sezzle Income and recognized as a reduction of the overall income and, therefore, these costs are not included in third-party technology and data;



- Marketing, advertising, and tradeshow includes costs related to marketing, sponsorships, advertising, attending tradeshow, promotional product expenses, and costs to co-market Sezzle's brand with its merchants;
- General and administrative primarily includes legal, compliance, audit, tax, and other consultation costs; third-party implementation fees; and charitable contributions; and
- Provision for uncollectible accounts on notes receivable is calculated on an expected-loss basis. Sezzle maintains an allowance for uncollectible accounts at a level necessary to absorb estimated probable losses on principal and reschedule fee receivables from consumers. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. Sezzle uses its judgment to evaluate the allowance for uncollectible accounts based on current economic conditions and historical performance of consumer payments.

## NOTE 2. FAIR VALUE

Fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Fair value measurements are reported in one of three levels reflecting the valuation techniques used to determine fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 - Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- Level 3 - Unobservable inputs for the asset or liability, which include management's own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

The Company measures the value of its money market securities on a regular basis. The fair value of its money market securities, totaling \$2,000,019 and \$9,996,155 as of June 30, 2021 and December 31, 2020, respectively, are based on Level 1 inputs and are included within cash and cash equivalents on the consolidated balance sheets.

## NOTE 3. TOTAL INCOME

### *Sezzle Income*

Sezzle receives its income primarily from fees paid by merchants in exchange for Sezzle's payment processing services. These fees are applied to the underlying sales to consumers passing through the Company's platform and are predominantly based on a percentage of the consumer order value plus a fixed fee per transaction. Consumer installment payment plans typically consist of four installments, with the first payment made at the time of purchase and subsequent payments coming due every two weeks thereafter. Additionally, consumers may reschedule their initial installment plan by delaying payment for up to two weeks, for which Sezzle earns a rescheduled payment fee. The total of merchant fees and rescheduled payment fees, less note origination costs, are collectively referred to as Sezzle income within the consolidated statements of operations and comprehensive loss. Note origination costs are comprised of costs paid to third-parties to obtain data for underwriting consumers which result in a successful transaction. Such costs which result in a declined order are recorded in third-party technology and data within operating expenses in the consolidated statements of operations and comprehensive loss.

Sezzle income is initially recorded as a reduction to notes receivable, net, within the consolidated balance sheets. Sezzle income is then recognized over the average duration of the note using the effective interest rate method. Total Sezzle income to be recognized over the duration of existing notes receivable outstanding was \$4,356,929 and \$3,458,222 as of June 30, 2021 and December 31, 2020, respectively. Total Sezzle income recognized was \$46,401,446 and \$17,887,117 for the six months ended June 30, 2021 and 2020, respectively.

### Account Reactivation Fee Income

Sezzle also earns income from consumers in the form of account reactivation fees. These fees are assessed to consumers who fail to make a timely payment. Sezzle allows a 48-hour waiver period where fees are dismissed if the installment is paid by the consumer. Account reactivation fees are recognized at the time the fee is charged to the consumer, less an allowance for uncollectible amounts. Account reactivation fee income recognized totaled \$7,474,980 and \$2,895,804 for the six months ended June 30, 2021 and 2020, respectively.

## NOTE 4. NOTES RECEIVABLE

Sezzle's notes receivable comprise outstanding consumer principal and account reschedule fees that Sezzle reasonably expects to collect from its consumers. As of June 30, 2021 and December 31, 2020, Sezzle's notes receivable, related allowance for uncollectible accounts, and deferred net origination fees are recorded within the consolidated balance sheets as follows:

As of	June 30, 2021	December 31, 2020
Notes receivable, gross	\$ 120,548,203	\$ 95,398,668
Less allowance for uncollectible accounts:		
Balance at beginning of year	(11,133,146)	(3,461,837)
Provision	(22,424,183)	(19,587,918)
Charge-offs, net of recoveries totaling \$1,220,773 and \$648,799, respectively	17,086,349	11,916,609
Total allowance for uncollectible accounts	(16,470,980)	(11,133,146)
Notes receivable, net of allowance	104,077,223	84,265,522
Deferred origination fees, net of costs	(4,356,929)	(3,458,222)
<b>Notes receivable, net</b>	<b>\$ 99,720,294</b>	<b>\$ 80,807,300</b>

Sezzle maintains an allowance for uncollectible accounts at a level necessary to absorb estimated probable losses on principal and reschedule fee receivables from consumers. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. Principal payments recovered after the 90 day charge-off period are recognized as a reduction to the allowance for uncollectible accounts in the period the receivable is recovered. Sezzle has not changed the methodology for estimating its allowance for uncollectible accounts during the six months ended June 30, 2021.



The following table summarizes Sezzle's gross notes receivable and related allowance for uncollectible accounts as of June 30, 2021 and December 31, 2020:

As of	June 30, 2021			December 31, 2020		
	Gross Receivables	Less Allowance	Net Receivables	Gross Receivables	Less Allowance	Net Receivables
Current	\$ 97,958,633	\$ (3,394,809)	\$ 94,563,824	\$ 79,673,073	\$ (2,692,254)	\$ 76,980,819
Days past due:						
1-28	11,447,731	(4,294,204)	7,153,527	9,574,902	(3,616,327)	5,958,575
29-56	5,540,414	(3,954,254)	1,586,160	3,576,255	(2,646,627)	929,628
57-90	5,601,425	(4,827,713)	773,712	2,574,438	(2,177,938)	396,500
Total	\$ 120,548,203	\$ (16,470,980)	\$ 104,077,223	\$ 95,398,668	\$ (11,133,146)	\$ 84,265,522

Deferred origination fees, net of costs are comprised of unrecognized merchant fees and consumer reschedule fees net of direct note origination costs, which are recognized over the duration of the note with the consumer and are recorded as an offset to Sezzle income on the consolidated statements of operations and comprehensive loss. Sezzle's notes receivable had a weighted average days outstanding of 34 days, consistent with the prior year's duration.

## NOTE 5. OTHER RECEIVABLES

As of June 30, 2021 and December 31, 2020, the balance of other receivables, net, on the consolidated balance sheets is comprised of the following:

As of	June 30, 2021	December 31, 2020
Account reactivation fees receivable, net	\$ 1,264,720	\$ 804,060
Receivables from merchants	676,735	599,246
Other receivables, net	\$ 1,941,455	\$ 1,403,306

Account reactivation fees receivable, net, is comprised of outstanding account reactivation fees that Sezzle reasonably expects to collect from its consumers. As of June 30, 2021 and December 31, 2020, Sezzle's account reactivation fees receivable and related allowance for uncollectible accounts are recorded within the consolidated balance sheets as follows:

As of	June 30, 2021	December 31, 2020
Account reactivation fees receivable, gross	\$ 2,419,001	\$ 1,875,648
Less allowance for uncollectible accounts:		
Balance at start of period	(1,071,588)	(483,518)
Provision	(2,050,636)	(2,347,733)
Charge-offs, net of recoveries totaling \$291,478 and \$71,110, respectively	1,967,943	1,759,663
Total allowance for uncollectible accounts	(1,154,281)	(1,071,588)
Account reactivation fees receivable, net	\$ 1,264,720	\$ 804,060

Sezzle maintains the allowance at a level necessary to absorb estimated probable losses on consumer account reactivation fee receivables. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. Payments recovered after the 90 day charge-off period are recognized as a reduction to the allowance for uncollectible accounts in the period the receivable is recovered. Sezzle has not changed the methodology for estimating its allowance for uncollectible accounts during the six months ended June 30, 2021.

Receivables from merchants primarily represent merchant fees charged, but not yet paid, to the Company. Additionally, during the six months ended June 30, 2021 and 2020, the Company recorded direct write-downs of \$455,182 and \$164,313, respectively, for uncollectible receivables from merchants, which is included in the provision for uncollectible other receivables.

## NOTE 6. LEASES

Sezzle is currently entered into operating leases for its corporate office spaces in the United States and Canada. Total lease expense incurred for the six months ended June 30, 2021 and 2020 was \$275,427 and \$186,969, respectively. Lease expense is recognized within general and administrative expenses on the consolidated statements of operations and comprehensive loss.

During the six months ended June 30, 2021, Sezzle renewed a portion of its operating leases in the United States and Canada, which it had previously determined it was unlikely to renew. As a result, Sezzle recorded an increase in its operating right-of-use assets and its corresponding lease liabilities of \$142,597.

The expected maturity of the Company's operating leases as of June 30, 2021 is as follows:

2021	\$	77,008
2022		70,388
Interest		(4,404)
Present value of lease liabilities	\$	142,992

The weighted average remaining term of the Company's operating leases is 1.0 years and its weighted average discount rate for all operating leases is 4.75%. As of June 30, 2021, Sezzle has not entered into any lease agreements that contain residual value guarantees or financial covenants.

## NOTE 7. INTERNALLY DEVELOPED INTANGIBLE ASSETS, PROPERTY, AND EQUIPMENT

The Company reviews the carrying value of long-lived assets, which includes property, equipment, and internally developed intangible assets, for impairment whenever events and circumstances indicate that the assets' carrying value may not be recoverable from the future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects; the manner in which the asset is used; and the effects of obsolescence, demand, competition, and other economic factors. No such impairment losses were incurred during the six months ended June 30, 2021 and 2020.



## NOTE 8. MERCHANT ACCOUNTS PAYABLE

Sezzle offers its merchants an interest bearing program in which merchants may defer payment from the Company in exchange for interest. Merchant accounts payable in total were \$88,926,109 and \$60,933,272 as of June 30, 2021 and December 31, 2020, respectively, as disclosed in the consolidated balance sheets. Of these amounts, \$78,970,860 and \$53,528,501 were recorded within the merchant interest program balance as of June 30, 2021 and December 31, 2020, respectively.

Deferred payments retained in the program bear interest at the LIBOR daily (3 month) rate plus three percent (3.0%) on an annual basis, compounding daily. The weighted average annual percentage yield was 3.26% and 6.85% for the six months ended June 30, 2021 and 2020, respectively. Interest expense associated with the program totaled \$1,046,067 and \$621,196 for the six months ended June 30, 2021 and 2020, respectively.

Deferred payments are due on demand, up to \$250,000 during any seven day period, at the request of the merchant. Any request larger than \$250,000 is honored after 7 days. Sezzle reserves the right to impose additional limits on the program and make changes to the program without notice or limits. These limits and changes to the program can include but are not limited to: maximum balances, withdrawal amount limits, and withdrawal frequency.

## NOTE 9. LINE OF CREDIT

On February 10, 2021, Sezzle entered into an agreement with Goldman Sachs Bank USA (the 'Class A' senior lender) and Bastion Funding IV LLC (the 'Class B' mezzanine lender) for a \$250,000,000 receivables funding facility. The funding facility has a maturity date of June 12, 2023 (a 28-month term from the agreement date). Fifty percent of the total available funding facility (\$125,000,000) is committed while the remaining fifty percent is available to the Company for expanding its funding capacity. The loan agreement is subject to both affirmative and negative covenants. The Company had an outstanding line of credit balance of \$21,000,000 as of June 30, 2021 and is recorded within line of credit, net, as a non-current liability on the consolidated balance sheets.

The agreement is secured by the Company's consumer notes receivable it chooses to pledge. Borrowings are generally based on 90% of eligible notes receivable pledged, or 85% if the weighted average FICO scores of the pledged receivables fall below 580. Eligible notes receivable are defined as notes receivable from consumers in the United States or Canada that are less than 15 days past due. As of June 30, 2021, Sezzle had pledged \$116,283,313 of its notes receivable. Sezzle had an unused borrowing capacity of \$56,763,483 as of June 30, 2021.

The funding facility carries an interest rate of 3-month LIBOR+3.375% and 3-month LIBOR+10.689% (the LIBOR floor rate is set at 0.25%) for funds borrowed from the Class A and Class B lender, respectively. As of June 30, 2021, the weighted average interest rate was 5.250%. Interest on borrowings is due on collection dates as specified in the loan agreement, typically fortnightly. For the six months ended June 30, 2021, interest expense relating to the utilization of the line of credit was \$987,331.

Additionally, any unused daily amounts incur a facility fee at a rate of .50% per annum until May 11, 2021. Beginning May 11, 2021, the facility fee rate becomes variable, dependent on the percentage of the line of credit utilized. If less than one-third of the facility is used, the rate is .65% per annum; if between one-third and two-thirds of the facility is used, the rate is .50% per annum; and if more than two-thirds of the facility is used, the rate is .35% per annum.

In the event of a prepayment due to a broadly marketed and distributed securitization transaction with a party external to the agreement, an exit fee of 0.75% of such prepaid balance will be due to the lender upon such transaction. Additionally, the Company paid a \$1,000,000 termination fee to exit its previous loan agreement.

For the six months ended June 30, 2021, amortization expense recorded for debt issuance costs on the line of credit totaled \$310,475. Total cash payments for debt issuance costs relating to the new line of credit were \$1,697,705 as of June 30, 2021.

## NOTE 10. LONG TERM DEBT

On April 14, 2020, the Company received loan proceeds in the amount of \$1,220,332 under the U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP). The PPP, established as part of the CARES Act, provides loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. PPP loans are uncollateralized and guaranteed by the SBA, and are forgivable after a "covered period" (eight or twenty-four weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1% with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, ten months after the end of the covered period. PPP loan terms provide for customary events of default including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, the PPP loan terms do not include prepayment penalties.

On June 24, 2021, the Company repaid the loan in full, comprising \$1,220,332 in principal and \$14,779 in accrued interest. The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted or the loan has been repaid in full. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

## NOTE 11. COMMITMENTS AND CONTINGENCIES

### *Merchant Contract Obligations*

The Company has entered into several agreements with third-parties in which Sezzle will reimburse these third-parties for co-branded marketing and advertising costs. During the six months ended June 30, 2021, the Company entered into agreements that stipulate that Sezzle will commit to spend up to approximately \$35 million in marketing and advertising spend. Certain agreements also contain provisions that may require payments by the Company and are contingent on Sezzle and/or the third party meeting specified criteria, such as achieving volume targets and implementation benchmarks.

Expenses incurred relating to these agreements totaled \$2,459,562 and \$333,566 for the six months ended June 30, 2021 and 2020, respectively. These expenses are included within marketing, advertising, and tradeshows expenses in the consolidated statements of operations and comprehensive loss. Sezzle had approximately \$231,000 and \$211,000 recorded as a prepaid expense in the consolidated balance sheets as of June 30, 2021 and December 31, 2020, respectively.

## NOTE 12. SHORT AND LONG-TERM INCENTIVE PLANS

In May 2020, the Company adopted a short-term incentive compensation program for its employees and executives. The program is based on achievements where individuals will be compensated for Company-wide and individual and/or team performance for the fiscal year. Measurement of compensable amounts is determined at the end of the year and payouts to individuals will be made in the form of restricted stock units in the following year.



As of June 30, 2021, the Company has accrued a total of \$3,508,023 for this program, compared to \$2,133,806 as of December 31, 2020, which is recorded in accrued liabilities on the consolidated balance sheets.

The Company also adopted a long-term incentive plan (LTIP) for its executive team in May 2020. The LTIP comprises grants of market priced stock options under the 2019 Equity Incentive Plan, with vesting subject to required levels of Comparative Total Shareholder Return (TSR) tested over three years, and subject to continued employment for a three-year period ending January 1, 2023. Both the market and service vesting conditions must be met in order for the grantee to vest at the end of the three year measurement period.

Each of the executive and designated senior officers of the Company was awarded a long term incentive stock option grant to purchase shares on May 22, 2020. The stock options have an exercise price of A\$2.10 per share, based on the closing sale price of CHESS Depository Interests (CDIs) on the Australian Securities Exchange (ASX) on May 21, 2020, the trading day prior to the date of grant. The amount of each award is equal to 300% of the individual's salary in effect as of May 22, 2020 (100% for each of the three years in the performance period and pro-rated for start date).

The Company's stock price performance will be measured based on its volume weighted average price relative to other companies included within the S&P/ASX All Technology Index. The number of long term incentive stock option grants were calculated based on a fair value of \$0.64 per option, determined under the Monte Carlo Simulation valuation method.

Total expense recognized related to compensation under the LTIP program was \$4,857,121 for the six months ended June 30, 2021, and \$575,000 for the six months ended June 30, 2020. The compensable amounts under the LTIP to executive board members are subject to shareholder approval. On June 10, 2021, the Company received shareholder approval to grant the LTIP awards to executive board members. Upon this approval, the Company remeasured the fair value of the awards and reclassified the awards from other long-term liabilities to stockholder's equity. The total fair value reclassified from liability to stockholder's equity was \$9,293,035 as of June 10, 2021.

### NOTE 13. NET LOSS PER SHARE

The computation for basic net loss per share is established by dividing net losses for the period by the weighted average shares outstanding during the reporting period, including repurchases carried as treasury stock. Diluted net loss per share is computed in a similar manner, with the weighted average shares outstanding increasing from the assumed exercise of employee stock options (including options classified as liabilities) and assumed vesting of restricted stock units (if dilutive). Given the Company is in a loss position, the impact of including assumed exercises of stock options and vesting of restricted stock units would have an anti-dilutive impact on the calculation of diluted net loss per share and, accordingly, diluted and basic net loss per share were equal for the six months ended June 30, 2021 and 2020.

### NOTE 14. SUBSEQUENT EVENTS

On July 14, 2021, Sezzle agreed to issue Discover Financial Services LLC ("Discover") \$30,000,000 of the Company's common stock at a price of \$6.58 per share (A\$8.83), which was completed on July 19, 2021. The Company and Discover are finalizing a definitive commercial agreement, in which the parties propose to enter into an expanded partnership, including plans for a buy now, pay later network solution on the Discover Global Network, as well as a dedicated referral program introducing Discover credit and debit products to the Company's consumer base.

# Corporate Directory

## DIRECTORS

### Charlie Youakim

Executive Chairman and Chief Executive Office – USA

### Paul Paradis

Executive Director and President – USA

### Paul Purcell

Independent Non-Executive Director – USA

### Kathleen Pierce-Gilmore

Independent Non-Executive Director – USA

### Paul Lahiff

Independent Non-Executive Director – Australia

### Mike Cutter

Independent Non-Executive Director – Australia

## COMPANY SECRETARY

### Justin Clyne

Australia (Company Secretary – ASX Compliance)

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