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Katapult Holdings, Inc.

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Earnings Call

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CALL PARTICIPANTS 2

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Call Participants

EXECUTIVES

Derek Medlin

President, Chief Growth Officer & Director

Jennifer Cohn Kull

Vice President of Investor Relations

Nancy A. Walsh

Chief Financial Officer

Orlando J. Zayas

CEO & Director

Presentation

Operator

Thank you for standing by. At this time, I'd like to welcome everyone to Katapult Holdings Third Quarter 2025 Earnings Call. [Operator Instructions] I would now like to turn the call over to Jennifer Kull, Vice President, Head of Investor Relations. You may begin.

Jennifer Cohn Kull

Vice President of Investor Relations

Welcome to Katapult's Third Quarter 2025 Conference Call. On the call with me today are Orlando Zayas, Chief Executive Officer; Nancy Walsh, Chief Financial Officer; and Derek Medlin, President and Chief Growth Officer. For your reference, we have posted materials related to today's call on the Investor Relations section of the Katapult website, which can be found at ir.katapultholdings.com. Please keep in mind that our remarks today include forward-looking statements related to our financial guidance, our business and our operating results as noted in the earnings release and slide deck posted to our website for your reference.

Our actual results may differ materially. Forward-looking statements involve risks and uncertainties, some of which are described in today's earnings release and our most recent Form 10-Q and which will be updated in future periodic reports that we file with the SEC. Any forward-looking statements that we make on this call are based on our beliefs and assumptions today, and we disclaim any obligation to update them. Also during the call, we'll present both GAAP and non-GAAP financial measures. Non-GAAP financial measures should be considered supplemental to and not replacements for or superior to our GAAP results. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is included with today's earnings release and is available on the Investor Relations section of the company's website. Finally, all comparisons are year-over-year unless stated otherwise. With that, I will turn the call over to Orlando.

Orlando J. Zayas

CEO & Director

Thank you, Jennifer, and welcome, everyone, joining us this morning. Before I jump into reviewing our Q3 progress, I want to take a few moments to discuss some of the highlights from our recently announced capital investment from Hawthorn Horizon Credit Fund. We filed an 8-K last week that detailed the \$65 million investment that Hawthorn has made in our business. This investment allowed us to pay off our term loan in full, repay a portion of the amounts outstanding under our revolving line of credit and will also allow us to invest in growth opportunities.

We're very excited about this transaction. We believe this investment will create a more efficient capital structure and provide more stable foundation for us to grow successfully executing on our operating strategy. We're also excited to welcome our new directors, including Derek to our Board and look forward to their input as we continue on our journey to create value for all our stakeholders. Please refer to the 8-K we filed with the SEC on November 3 for more details on the transaction. Now let's move on to Q3 results. When we entered 2025, we had 3 near-term priorities: one, increase top-of-the-funnel activity; two, find new ways to interact with our loyal and engaged customer base and enhance their user experience, and three, evolve our balance sheet and capital structure to create a strong foundation for growth. While we have an important holiday season ahead of us, I'm very pleased with the progress we've made against these objectives.

Derek will review our operating progress in greater detail, but let me walk you through a few proof points that will show how well we've executed year-to-date. Regarding top of the funnel activity, one very important marker of our progress is our application growth. Through the first 3 quarters of 2025, we grew applications by 76%. This growth has positively impacted our business in several ways. Let me highlight 2. First, this application growth is a direct contributor to our ability to expand our customer base. During the first 3 quarters of 2025, we've grown unique new customers by 35% compared with 2024.

And this includes nearly 47% growth in the third quarter. This is the fourth quarter of accelerating growth for this metric. Given our track record of high repeat rates, bringing new customers into the Katapult marketplace can create significant downstream value. This influx of new customers, coupled with our strong repeat rate, allowed us to grow our total customer base a little more than 30% during the third quarter. Second, in addition to attracting applicants, we are also growing Katapult app engagement. In the third quarter, monthly active users or MAUs grew nearly 49% when compared with activity in the third quarter of 2024.

As we look down our engagement funnel, we believe that application growth and increasing engagement are 2 leading indicators for future conversion rate expansion and gross originations growth. As we've extended our consumer reach, our team has also done a terrific job of providing best-in-class experience to our existing customers. As a result, we sustained very strong NPS and repeat customer rates. During Q3, our NPS was 64 which was up year-over-year and 55.3% of our gross originations came from repeat customers. And our repeat customers are becoming increasingly valuable to the Katapult ecosystem.

During the third quarter, LTV for this cohort of customers increased by about 5%. Our financial model gains even more power as it scales. And our success this year has established that we have the right product market fit to attract new consumers and the right offering to retain their loyalty. With this evidence in hand, we are confidently turning our focus to optimizing this top-of-funnel growth and pursuing strategies that should allow us to make our growth more profitable. The next 12 months will be a critical time for Katapult as we focus on our goals of growth and profitability. We believe we have laid the foundation cracking the code on accelerating top-of-funnel activity, streamlining our cost structure to reach a key inflection point.

Nancy will speak in greater detail about how our evolving operating strategy is creating opportunities to both sustained growth while driving towards a higher margin profile. Before I turn the call over to Derek to review how we are approaching our next phase of growth, priorities and execution strategies, let me hit a few more highlights from our Q3 results. During the third quarter, we grew gross originations 25.3% and revenue 22.8%. Both of these results were within our outlook range. We also delivered \$4.4 million in positive adjusted EBITDA, which was above our \$3 million to \$3.5 million range. With this quarter's performance, we now have delivered 3 consecutive years of gross origination growth and 10 consecutive quarters of revenue growth.

We're so excited about the track record we've built and believe it's a testament to the strength of our product offering and our team's strong execution. The Katapult marketplace is thriving. We continue to generate new gross originations for our merchants and are allowing more and more customers to access the durable goods they need. During the third quarter, we saw strong growth for both total app originations and KPay originations. During Q3, total app originations, which are originations that start in our app but may be consummated elsewhere, grew 44% to \$39.3 million. This means that approximately 61% of our gross originations started in our app marketplace. KPay originations, which are a subset of total app originations were \$26.4 million and grew 66% year-over-year.

We have grown quarterly KPay originations by more than 50% each quarter since we launched the feature in late 2022. Our marketplace performance is fueled in equal parts by the value we bring to our merchants and to customers. Merchants love Katapult because we help them capture incremental market share as well as wallet share. In the third quarter alone, we set nearly \$13 million of gross originations to our merchants, further solidifying our role as a unique growth partner. Customers love us because we're obsessed with providing best-in-class customer service and we offer fair, transparent pricing they need to make their budgets work. Recently, we enhanced our user experience with new features, including access to higher lease lines for certain customers a new auto pay feature and a PayPal payment option.

We want to deliver a wonderful holiday season for our customers, and we believe we are well positioned to do so. With that, I'll turn the call over to Derek to discuss our operating progress in more detail. Derek?

Derek Medlin

President, Chief Growth Officer & Director

Thanks, Orlando, and good morning to everyone. I want to echo Orlando's sentiments. We're very proud of the results we've delivered this year. We're executing well against each one of our core initiatives, and are looking forward to a great fourth quarter. Let's start with a few highlights of the progress we've made against our consumer engagement initiative. When we entered 2025, we set our sights on meaningfully increasing top-of-funnel activity, and that's exactly what we've done. As Orlando mentioned, total Katapult applications, which includes those coming in from direct, waterfall or app Marketplace and KPay increased 76% during the first 9 months of 2025 and grew 80% in the third quarter alone.

We feel confident that we have the breadth of referral sources and acquisition channels in place to continue driving this top-of-funnel activity. But applications are just 1 ingredient in a full funnel ROI-positive customer acquisition strategy. We are very pleased with the growth we've seen in this area, but we cannot directly control the credit quality of the majority of the applications we receive, and over the last few months, we have seen application quality trend slightly downward. What we can influence however, is conversion. And to drive conversion higher, we are optimizing in 2 areas: underwriting and promotional activity.

Let's start with underwriting. As it impacts the types of promotions we offer to consumers. Late in the third quarter, we tightened our underwriting decision in a few targeted areas, and this is already delivering positive results. We are already seeing the credit quality of our preapproved consumers as well as converted customers begin to trend up. We believe this tightened posture will also enable us to do an even better job of putting the most compelling pricing promotions in front of our best customers, which should be a driver of conversion rate expansion and have a positive impact on write-offs over time. While early, we have already begun to see our conversion rates increase, and we would expect this to continue as we further refine our pricing strategies.

Our marketing strategy is also fueling our continued growth and is highly complementary to our pricing and underwriting strategies. When we launched the Katapult app in late 2022, we created a communications channel that would allow us to engage with consumers more directly. As we build scale on the app, we steadily increased the number of touch points and interactions with consumers, primarily through e-mail and SMS. Cross-shopping activity, where a customer has 2 or more current leases and these leases are with 2 or more different retailers continue to increase year-over-year. By this measure, cross-shopping customers who entered into multiple leases with more than 1 retailer grew about 64% year-over-year and represented about 13% of our gross originations during the quarter.

Having more than 1 lease in cross-shopping are hallmark behaviors of an existing customer, and this was one of the key drivers of our increasing LTV among returning customers. Next up, let's dive into our app marketplace and KPay performance. As a reminder, when we talk about app marketplace performance, we are referring to the activity and originations that begin in our app and this includes transactions completed with KPay. Our marketplace allows Katapult to be a brand partner to our merchants. This means that even if a customer starts their journey in our app, they are able to interface with our merchant partners brands, websites and user experiences seamlessly allowing Katapult to become an extension of their brands.

Customers then have the option to complete their transactions on a merchant partner site or within our app, giving them choice in their shopping journey. Since we were able to track their journeys, all of this activity is included in our total app marketplace performance data allowing our merchants and other partners to understand the impact of our marketplace can have on their growth. During Q3, the number of gross originations in our app marketplace grew approximately 62% year-over-year driven by the factors we've discussed earlier, healthy repeat customer activity, robust conversion, cross-shopping and our targeted marketing campaigns. These activities are helping us to bring more and more participants to our marketplace.

A few quarters ago, we talked a bit about our efforts to increase our wallet share with customers by highlighting the availability of lease lines for lower-cost durable goods at or around the \$300 mark. This quarter, KPay transactions of this size increased as a percentage of our total KPay-leased portfolio. Given our continued gross originations growth by both dollars and the number of leases, we believe we are successfully taking wallet share and that we are truly becoming a shopping destination for nonprime

customers. KPay transactions continue to grow at robust rates. As a reminder, KPay and related activity refers only to those leases that are originated using our KPay feature to checkout.

KPay growth originations grew 66% during Q3, which represented 41% of total gross originations. As it approaches 50% of our total originations, KPay has become an increasingly important driver of our business and one that we have direct control over. This is why we are so excited to see engagement with our app continue to increase. Orlando already mentioned our MAU growth. This growth has been supported by more than 1.2 million unique downloads and since the beginning of 2025, our app has been opened more than 11 million times. This engagement also drove our KPay unique customer count, which grew by about 76% year-over-year.

This was also accompanied by another year-over-year increase in quarterly KPay conversion rate. Beyond the marketing and strategic pricing initiatives and the new features and functionality that Orlando highlighted earlier, we continue to look for other opportunities to surprise and delight our app users. For example, consumers can now lease from Apple, our most recent addition to our growing list of KPay enabled merchants. We believe we are executing well across our growth initiatives, including our strategies to engage with our merchants. During Q3, direct and waterfall merchants accounted for approximately 59% of total gross originations and gross originations from this group of merchants grew about 6%. If we exclude the home furnishings and mattress category from our direct and waterfall growth originations, our direct and waterfall gross originations grew approximately 42% year-over-year.

Our team continues to execute strategies that compel merchants to want to do more with us. During Q3, we added approximately 46 new direct or waterfall merchants or merchant pathways to our ecosystem. As a reminder, pathways include new or existing merchant partners that launch a new website or an in-store experience that includes Katapult as a direct or waterfall LTO offering. These pathways provide new ways for consumers to discover and engage with our offerings. We also continue to work with our merchant partners to implement a variety of promotional strategies and future functionality focused on driving conversion and consumer engagement. We've already talked a bit about various pricing and lease line strategies that we're working on independently but we have also partnered with key merchants to deploy these strategies in combination with dynamic promotions.

We continue to closely monitor the success and health of our top 25 merchants. This quarter, this cohort of merchants once again grew robustly. Gross originations grew 25% in Q3. We are also closely watching emerging macroeconomic trends and analyzing our potential impact on our non-prime consumers. Currently, we see the looming shadow of continued inflation as well as general market delinquency data that suggests non-prime U.S. consumers are finding it more challenging to meet their financial commitments, such as the much publicized data that we've all seen for car loans and repayment trends. We are also trying to assess the impact that the government shutdown is having on our core consumer. While each of these macroeconomic indicators and developments factor into our planning for underwriting and marketing, we don't run our business based strictly on these data.

We rely on the tremendous amount of real-time Katapult specific data points to inform our underwriting and credit decisioning policies. So while we have already implemented a round of tightening as we discussed earlier, we also have a variety of scenario plans in place that will allow us to react quickly to new data and actions as they materialize. Our team is doing a great job of executing our strategy. We believe we are on track to deliver a great Q4 and look forward to helping our customers and merchants have a terrific holiday season. With that, I'll turn it over to Nancy for an update on our financial results and outlook. Nancy?

Nancy A. Walsh
Chief Financial Officer

Thanks, Derek, and hello to everyone joining us this morning. We are moving full steam ahead on a number of operating initiatives that we believe will have a positive impact on our long-term P&L, and we are excited about the future. Let's start with a few insights on our top line performance. We have now grown gross originations for 12 consecutive quarters. Gross originations grew 25.3% to \$64.2 million which was within our outlook range. We estimate that we experienced a minor headwind to growth related

to the tightening discussed earlier in our prepared comments. In addition, if we exclude home furnishings and mattress gross originations, Q3 gross originations grew 50% year-over-year.

You have heard us discuss our strong application growth, which we believe will translate into continued gross originations growth. Despite the tightening and impact of the home furnishings and mattress category, we grew the number of pre-approvals by nearly 60%, which translated to a 61% increase in total approved application dollars. As we continue to refine and improve our conversion funnel, we believe we have the ingredients necessary to sustain and accelerate top line growth. As Derek noted, gross originations for our top 25 merchants grew 25% during the quarter, and we're beginning to see an inflection with our largest merchant Wayfair, we saw total gross originations, which includes KPay originations grew slightly year-over-year during the third quarter.

On the revenue front, we also had another great quarter. We delivered \$74 million or 22.8% growth in Q3, which is in the middle of our outlook range and marked the tenth consecutive quarter of year-over-year growth. Gross profit for Q3 was approximately \$14.6 million, an increase of approximately 21.8% compared with \$11.9 million last year and gross margin was 19.7% compared with 19.8% gross margin in Q3 2024. Write-offs as a percent of revenue were 9.9%, up 60 basis points from Q3 2024 performance and within our 8% to 10% target range. Given the early impact we've already seen from our recent tightening, we believe we are taking the right steps to drive write-offs down in future quarters. Moving on to expenses and profitability. Our disciplined approach to expense management, coupled with our top line growth is at the center of our financial model.

This philosophy fuels our decision-making, and it is a core component of our long-term growth strategy. This approach allowed us to deliver another quarter of positive adjusted EBITDA above our outlook range. We believe we are well positioned to further improve upon this performance. Let me walk you through some of the puts and takes that impacted Q3 adjusted EBITDA. We've previously talked about our front-loaded lease depreciation and the impact rapid growth has on in-quarter gross profit. This noncash expense drives cost of sales higher. Total operating expenses were down 26.3%. We remain committed to fiscal discipline even as we strategically invest in our growth initiatives.

Excluding underwriting fees and servicing costs, which are variable, depreciation and stock-based compensation expense, which are noncash expenses, and excluding costs related to the settlement of litigation, transaction-related costs and debt refinancing, our Q3 fixed cash operating expenses were \$7.5 million, a 21.4% decrease compared to last year. During the third quarter, income from operations was \$2.5 million, a substantial improvement compared with the \$4.4 million loss from operations in Q3 2024. Overall, our continued focus on fiscal discipline and top line growth allowed us to deliver \$4.4 million in positive adjusted EBITDA for Q3, which exceeded our outlook range.

We are proud of the progress we have made on this front and believe we have the right strategy, initiatives and discipline in place to deliver continued growth. Turning to the balance sheet and cash flow. As of September 30, 2025, we had total cash and cash equivalents of \$9 million, which included \$5.6 million of restricted cash. As Orlando mentioned, we recently finalized a \$65 million transaction with Hawthorn Horizon Credit Fund LLC. Under the terms of the transaction, they have purchased 35,000 shares of our newly created Series A convertible preferred stock with an initial conversion price of \$12.32 per share and 30,000 shares of our newly created Series B convertible preferred stock with an initial conversion price of \$11.39 per share.

We have already used approximately \$35.1 million of the proceeds to repay our term loan in full and approximately \$6.9 million to reduce the outstanding amounts drawn on our revolving line of credit or RLOC. The reduction to our RLOC has allowed us to reduce our advance rate from 99% to 90%, and this reduction will result in interest expense savings over time. And with the retirement of our term loan, we believe we may have the potential to negotiate more favorable terms for our revolver if we refinance in the future. As of the end of the third quarter, we had \$79.6 million in outstanding debt on our revolving credit facility.

Moving on to cash performance. Cash generated from operations for Q3 2025 was \$800,000, a significant improvement compared to \$4.1 million of cash used for operations in Q3 2024. This year-over-year change was primarily due to changes in working capital. Turning to our Q4 2025 and full year 2025

outlook. As Derek mentioned, we're navigating a complicated macroeconomic environment, and it's difficult to predict the impact to our core consumers over the near term. In addition, we are also comping against robust growth in Q4 2024 when we achieved 11.3% gross origination growth. Based on our quarter-to-date results and given the uncertainties created by recent macro trends and events, we believe it is prudent to take a more conservative approach to our expectations for the fourth quarter, which are as follows: gross originations are expected to grow in the 15% to 20% range.

This includes about 1 percentage point headwind related to the tightening we did late in the third quarter. Gross originations, excluding the home furnishings, and mattress category are expected to continue to grow at a much faster pace than our overall growth originations. Revenue growth in the range of 21% to 23% and approximately \$2 million of adjusted EBITDA. Based on our Q4 outlook, we are tempering our 2025 outlook for gross originations, revenue and adjusted EBITDA. We expect gross originations to grow between 20% and 23%. We expect revenue in the 18% to 20% range and that we will deliver between \$8 million and \$9 million in positive adjusted EBITDA which will represent between 60% and 80% year-over-year growth for this metric.

Before we close, I'd like to offer a bit of perspective on the near-term future. While I'm not ready to offer an official outlook for 2026, I do believe that we will continue to see robust growth next year. Based upon the work and results we've delivered this year, we would project gross origination growth of at least 20% for the full year. We are so grateful to our team who continue to work tirelessly to help Katapult reach its potential. We are proud of what we are achieving together and look forward to delivering an incredible holiday season for our merchants and customers alike.

Operator

Ladies and gentlemen, that concludes today's call. Thank you for joining. You may now disconnect.

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