Katapult

Q1 2022 Earnings Presentation

MAY 10, 2022

Disclaimer

Katapult

This presentation contains, in addition to historical information, certain forward-looking statements, as defined in Private Securities Litigation Reform Act of 1995, that are based on our current assumptions, expectations and projections about future performance and events and relate to, among other matters, our future financial performance, our business strategy, industry and market trends, future expectations concerning our market position, future operations and capital expenditures. Statements in this presentation that are forward-looking include, but are not limited to, statements related to the impact of the COVID-19 pandemic on Katapult's business, the company's ability to acquire new customers and Katapult's ability to effectively manage long-term growth.

Forward-Looking Statements
Certain statements included in this presentation that are not historical facts are forward-looking statements for purposes of the safe harbor provisions under the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "should," "would," "plan," "predict," "potential," "seem," "seek," "future," "outlook," "goal", and similar expressions that predict or indicate future events or trends or that are not statements of historical matters. These forward-looking statements include, but are not limited to, statements regarding expectations relating to impairment charges and historical trends occurring in 2022, long-term trends of increasing adoption in digital commerce, our long-term growth plan, our growth strategies, strategic investments for growth and our target outcomes from our strategic investments. These statements are based on various assumptions, whether or not identified in this presentation, and on the current expectations of Katapult's management and are not predictions of actual performance. These forward-looking statements are provided for illustrative purposes only and are not intended to serve as, a guarantee, an assurance, a prediction or a definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. Many actual events and circumstances are beyond the control of Katapult. These forward-looking statements are subject to a number of risks and uncertainties, including execution of Katapult's business strategy, including launching new product offerings and expanding information and technology capabilities; Katapult's market opportunity and its ability to acquire new customers and retain existing customers; general economic conditions in the markets where Katapult operates, the cyclical nature of consumer spending, and seasonal sales and spending patterns of customers; failure to realize the anticipated benefits of the business combination with FinServ Acquisition Corp. (the "Merger"); risks relating to factors affecting consumer spending that are not under Katapult's control, including, among others, levels of employment, disposable consumer income, prevailing interest rates, consumer debt and availability of credit, pandemics (such as COVID-19), consumer confidence in future economic conditions and political conditions, and consumer perceptions of personal well-being and security; risks relating to uncertainty of Katapult's estimates of market opportunity and forecasts of market growth; risks related to the concentration of a significant portion of Katapult's business with a single merchant partner, or type of merchant or industry; the effects of competition on Katapult's future business; the impact of the COVID-19 pandemic and its effect on Katapult's business; unstable market and economic conditions, including as a result of the conflict involving Russia and Ukraine; reliability of Katapult's platform and effectiveness of its risk model; protection of confidential, proprietary or sensitive information, including confidential information about consumers, and privacy or data breaches, including by cyber-attacks or similar disruptions; ability to attract and retain employees, executive officers or directors; meeting future liquidity requirements and complying with restrictive covenants related to long-term indebtedness; effectively respond to general economic and business conditions; obtain additional capital, including equity or debt financing; enhance future operating and financial results; anticipate rapid technological changes; comply with laws and regulations applicable to Katapult's business, including laws and regulations related to rental purchase transactions; stay abreast of modified or new laws and regulations applying to Katapult's business, including rental purchase transactions and privacy regulations; maintain relationships with merchant partners; respond to uncertainties associated with product and service developments and market acceptance; anticipate the impact of new U.S. federal income tax law; that Katapult has identified material weaknesses in its internal control over financial reporting which, if not corrected, could affect the reliability of its consolidated financial statements; successfully defend litigation; litigation, regulatory matters, complaints, adverse publicity and/or misconduct by employees, vendors and/or service providers; and other events or factors, including those resulting from civil unrest, war, foreign invasions (including the conflict involving Russia and Ukraine), terrorism, or public health crises, or responses to such events; Merger"); and those factors discussed in greater detail in the section entitled "Risk Factors" in Katapult's periodic reports filed with the Securities and Exchange Commission ("SEC"), including Katapult's Annual Report on Form 10-K filed with the SEC on March 15, 2022, as well as in other documents filed, or to be filed, by Katapult, with the SEC, including Katapult's Quarterly Report on Form 10-Q for the quarter ended March 31, 2022. If any of these risks materialize or our assumptions prove incorrect, actual results could differ materially from the results implied by these forward-looking statements. There may be additional risks that Katapult does not presently know or that Katapult currently believes are immaterial that could also cause actual results to differ from those contained in the forward-looking statements. Undue reliance should not be placed on the forward-looking statements in this presentation. All forward-looking statements contained herein are based on information available to Katapult as of the date hereof, and Katapult does not assume any obligation to update these statements as a result of new information or future events, except as required by law.

Certain market data information in this presentation is based on the estimates of Katapult management. Katapult obtained the industry, market and competitive position data used throughout this presentation from internal estimates and research as well as from industry publications and research, surveys and studies conducted by third parties. Katapult believes its estimates to be accurate as of the date of this presentation. However, this information may prove to be inaccurate because of the method by which Katapult obtained some of the data for its estimates or because this information cannot always be verified. This presentation also contains estimates and other statistical data obtained from independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates and data. We have not independently verified third-party information. In addition, projections, assumptions and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk.

"Net Promoter Score" refers to Katapult's net promoter score, which is a percentage, expressed as a numerical value up to a maximum value of 100, that Katapult uses to gauge customer satisfaction. Net Promoter Score is based on a customer research study of 243 consumers performed in March 2022 and reflects responses to the following question on a scale of zero to ten: "How likely are you to recommend Katapult to a friend or colleague?" Responses of 9 or 10 are considered "promoters," responses of 7 or 8 are considered neutral or "passives," and responses of 6 or less are considered "detractors." Katapult then subtracts the number of respondents who are detractors from the number of respondents who are promoters and divide that number by the total number of respondents. This methodology of calculating Net Promoter Score reflects responses from customers who purchase products using Katapult and choose to respond to the survey question. Net Promotor Score gives no weight to customers who decline to answer the survey question. The trademarks included in this presentation are the property of the owners thereof and are used for reference purposes only.

Disclaimer (cont.)

Non-GAAP Financial Measures

To supplement the financial measures presented in this presentation and related conference call or webcast in accordance with GAAP, the Company also presents the following non-GAAP and other measures of financial performance: adjusted gross profit, adjusted EBITDA and adjusted net (loss) income. The Company urges investors to consider non-GAAP measures only in conjunction with its GAAP financials and to review the reconciliation of the Company's non-GAAP financial measures to its comparable GAAP financial measures, which are included in the annex to this presentation.

Adjusted gross profit represents gross profit less variable operating expenses, which are servicing costs, underwriting fees, and bad debt expense. Management believes that adjusted gross profit provides a meaningful understanding of one aspect of its performance specifically attributable to total revenue and the variable costs associated with total revenue.

Adjusted EBITDA is a non-GAAP measure that is defined as net income before interest expense and other fees, change in fair value of warrant liability, provision for income taxes, depreciation and amortization on property and equipment and capitalized software, impairment of leased assets, stock-based compensation expense, legal fees associated with investor transactions, and transaction costs associated with the Business Combination.

Adjusted net (loss) income is a non-GAAP measure that is defined as net (loss) income before change in fair value of warrant liability, stock-based compensation expense and transaction costs associated with the Business Combination.

Adjusted gross profit, adjusted EBITDA and adjusted net (loss) income are useful to an investor in evaluating the Company's performance because these measures:

- Are widely used to measure a company's operating performance;
- Are financial measurements that are used by rating agencies, lenders and other parties to evaluate the Company's credit worthiness; and
- Are used by the Company's management for various purposes, including as measures of performance and as a basis for strategic planning and forecasting.

Management believes the use of non-GAAP financial measures, as a supplement to GAAP measures, is useful to investors in that they eliminate items that are either not part of our core operations or do not require a cash outlay, such as stock-based compensation expense. Management uses these non-GAAP financial measures when evaluating operating performance and for internal planning and forecasting purposes. Management believes that these non-GAAP financial measures help indicate underlying trends in the business, are important in comparing current results with prior period results, and are useful to investors and financial analysts in assessing operating performance. However, these non-GAAP measures exclude items that are significant in understanding and assessing Katapult's financial results or position. Therefore, these measures should not be considered in isolation or as alternatives to revenue, net income, cash flows from operations or other measures of profitability, liquidity or performance under GAAP. You should be aware that Katapult's presentation of these measures may not be comparable to similarly titled measures used by other companies.

ASC 842 Adoption

The Company was required to adopt ASC 842 relating to lessor accounting, effective January 1, 2022. The Company's lease-to-own agreements, which comprise the majority of the Company's revenue, fall within the scope of ASC 842 and are impacted by this change. As a result of the adoption, the Company now recognizes revenue from customers when revenue is earned and cash is collected instead of on an accrual basis, which it has done historically. The Company has adopted ASC 842 using the transition method, which permits the Company to not apply ASC 842 for comparative periods in the year of adoption. As a result, the Company is not be recasting or restating 2021 or prior periods to conform to ASC 842. The adoption of ASC 842 is reflected in the Company's financial statements and related notes and periodic reports filed with the SEC beginning with the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2022.

For illustrative purposes only, the Company is disclosing total revenue, bad debt expense (net of recoveries) and income (loss) before provision for income taxes for each quarter during years ended December 31, 2021 and 2020, respectively as if the lessor accounting impacts of ASC 842 were in effect for these periods. "Total revenue", "bad debt expense (net of recoveries)" and "income before provision for income taxes" for 2021 and 2020 are supplemental disclosures that are not calculated in accordance with U.S. GAAP in place during these periods.

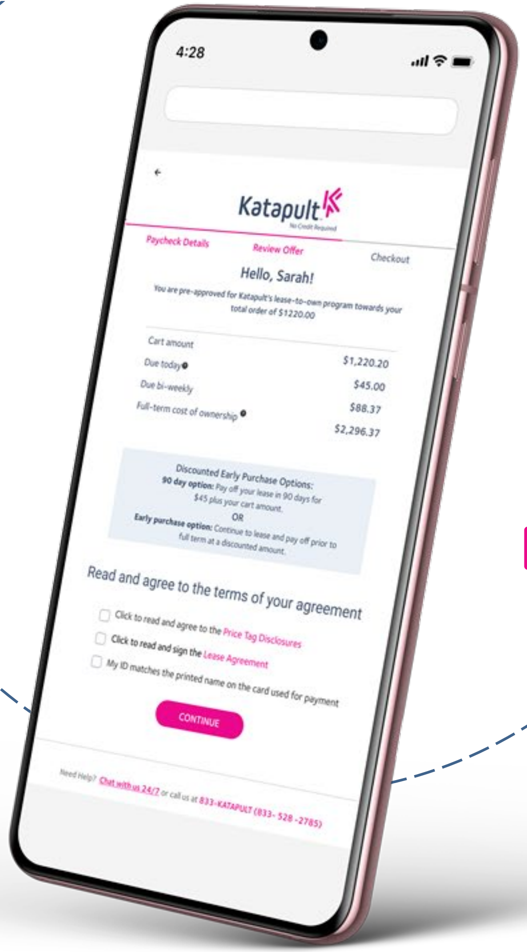
Management believes the supplemental information showing the impact of ASC 842 for 2021 and 2020 provides relevant and useful information for users of the Company's financial statements, as it provides comparability with the financial results the Company is reporting beginning in 2022 when ASC 842 became effective and the Company began to recognize revenue from customers when the revenue is earned and cash is collected. Upon adoption, the Company will no longer record accounts receivable arising from lease receivables due from customers incurred during the normal course of business for lease payments earned but not yet received from the customer or any corresponding allowance for doubtful accounts.

Investment Thesis

Our mission is to provide under-served nonprime consumers the flexibility they deserve to access the durable goods they need

Our vision is to offer consumers and merchants an innovative lease financing solution that enables transactions at the point of sale

- Embedded in e-commerce ecosystem
- Large, underserved addressable market
- Focused on financial inclusion
- Proprietary technology platform
- Unique financial profile
- Compelling value proposition



Q1 2022 Highlights

Executing Within Challenging E-commerce Macro Landscape

- Added 27 new merchant partners during the quarter
- Lease payment performance continues to normalize to pre-COVID levels and we continued the proactive tightening underwriting policy in Q1 2022

Maintaining High Rates of Merchant & Customer Satisfaction

- As of March 31, 2022, we had a Net Promoter Score(1) of 51
- 49% of Q1 2022 gross originations were from repeat customers
- Strong merchant retention

Investing in Growth Strategy to Scale

- Deployed capital in strategic areas of sales, marketing, product and technology during the quarter as part of long-term growth initiatives
- Solid balance sheet to fund growth

(1) For more information regarding how Net Promoter Score is calculated, see Slide 2.

Q1 2022 Financial Results

$ in millions (unaudited)	Q1 2022	Q1 2021	YoY Variance ($)	YoY Variance (%)
Gross Originations	$46.7	$63.8	$(17.1)	-27%
Total Revenue	$59.9	$80.6	$(20.7)	-26%
Gross Profit	$11.8	$27.8	$(16.0)	-58%
Total OpEx	$16.6	$13.3	$3.3	24%
Net (Loss) Income	$(5.6)	$8.1	$(13.7)	-168%
Adj Net (Loss) Income	$(7.6)	$9.2	$(16.8)	-183%
Adj EBITDA	$(4.2)	$14.6	$(18.8)	-128%

Commentary

- Gross originations down 27% as our key merchant partners are experiencing lower sales volumes. In addition, we have continued to tighten underwriting as we remain prudent in our lease portfolio risk management, leading to fewer approvals.
- Gross profit down year-over-year due to lower lease margins, driven in part by customer pricing offers and promotions, as well as adoption of ASC 842 revenue recognition from accrual basis to when revenue is earned, and cash is collected (see next slide).
- Adjusted EBITDA down $18.8 million due to lower gross profit, plus investments in new growth initiatives aimed at increasing market share, plus public company costs that were not incurred in Q1 2021 as we were not a public company.

New Accounting Standard

ADOPTION OF ASU 2016-02, LEASES ("ASC 842") – LESSOR ACCOUNTING EFFECTIVE JANUARY 1, 2022[(1)]

- As a result of the adoption, the Company will recognize revenue from customers when revenue is earned and cash is collected instead of on an accrual basis, which it has done historically
- The Company has adopted the transition method which permits the Company to not apply ASC 842 for comparative periods in the year of adoption. As a result, the Company will not restate 2021 or prior periods to conform to ASC 842 and such prior periods may not, therefore, be comparable to results following the adoption of this new standard.

$ in millions (unaudited)	Q1 2022 As reported	Q1 2021 Under ASC 842	YoY Variance ($)	YoY Variance (%)	Q1 2021 As reported
Total Revenue	$59.9	$77.6	$(17.7)	-23%	$80.6
Bad debt expense	-	-	-	-	$4.9

(1) For additional information regarding the adoption of ASC 842, see Slide 3.

Commentary

- Upon adoption, the Company no longer records:
  - **Income Statement:** Rental revenue arising from lease payments earned but not yet collected or any corresponding net bad debt expense
  - **Balance Sheet:** Accounts receivable arising from lease receivables or any corresponding allowance for doubtful accounts
- For illustrative purposes only, the table discloses total revenue and bad debt expense for the three months ended March 31, 2021 as if the lessor accounting impacts of ASC 842 were in effect for this period, including the change in revenue recognition from accrual basis to when revenue is earned, and cash is collected and no recording of bad debt expense.

Q1 2022 Operating Expenses

$ in milions (unaudited)	Q1 2022	Q1 2021	YoY Variance ($)	YoY Variance (%)
Servicing Costs	$1.2	$1.1	$0.1	6%
Underwriting Fees	$0.5	$0.5	$0.0	4%
Professional & Consulting Fees	$3.3	$1.5	$1.8	114%
Technology & Data Analytics	$2.4	$1.5	$0.9	56%
Bad Debt Expense	-	$4.9	$(4.9)	-100%
Compensation Costs	$5.4	$2.6	$2.8	108%
General & Administrative	$3.8	$1.2	$2.6	222%
Total Operating Expenses	$16.6	$13.3	$3.3	24%

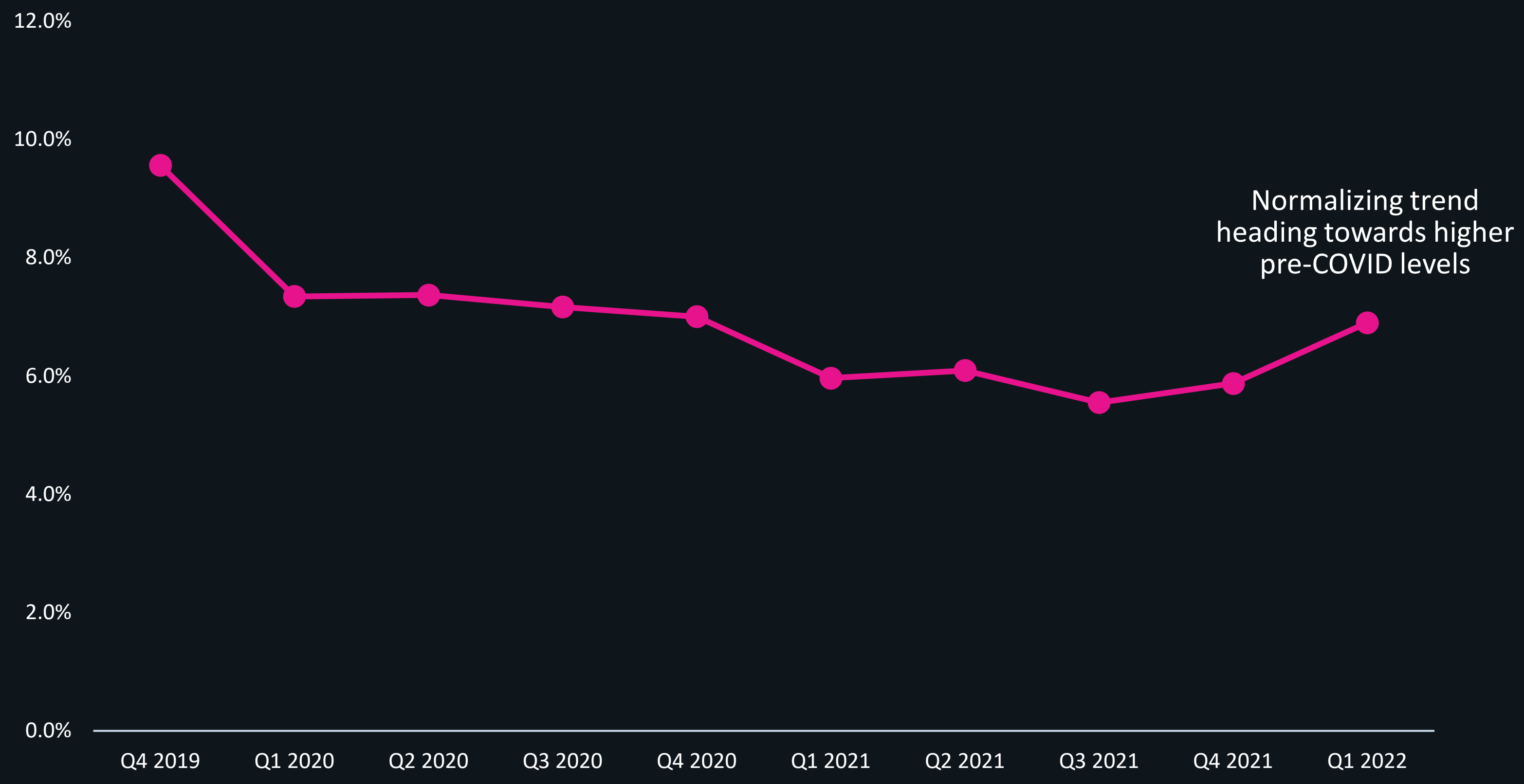
Commentary

Total operating expense includes:

- Elimination of bad debt expense due to adoption of ASC 842 effective January 1, 2022.
- Higher compensation cost from the addition of 38 full-time employees (FTE's) year-over-year.
- Increased general and administrative expense from public company expenses (insurance, legal, and accounting) and higher marketing spend.

Lease Portfolio Performance

Impairment Charges as a % of Gross Originations Trend



Commentary

- We tightened underwriting policy in Q4 2021 and have continued into 2022, leading to lower approval rates.
- Impairment Charges as a % of Gross Originations continuing to normalize and anticipate them to trend to higher pre-pandemic levels.
- Some macro deterioration in credit performance can be a positive for Katapult, as we would anticipate prime lenders to tighten their underwriting leading to more potential customers to come to us.

Strategic Investments for Growth

CORE

- ✓ Expanded sales and marketing team from 21 to 46 FTE’s
- ✓ Key hires made in product, technology, data science and analytics
- ✓ Launched incremental e-commerce platform & point-of-sale integrations
- ✓ Invested in infrastructure and security to enable scalability

Completed in 2021

EXPANSION

- ✓ Hired strategic leadership including CMO, CHRO, VP of Strategy, VP of Strategic Partnerships
- ✓ Optimizing sales process for merchants and partnerships in progress, guided by new VP of Sales
- Launching marketing and brand initiatives in summer 2022 (expected)
- Launch new product enhancements and technical capabilities second half 2022 (expected)
- Enhance risk modeling and data analytics second half 2022 (expected)

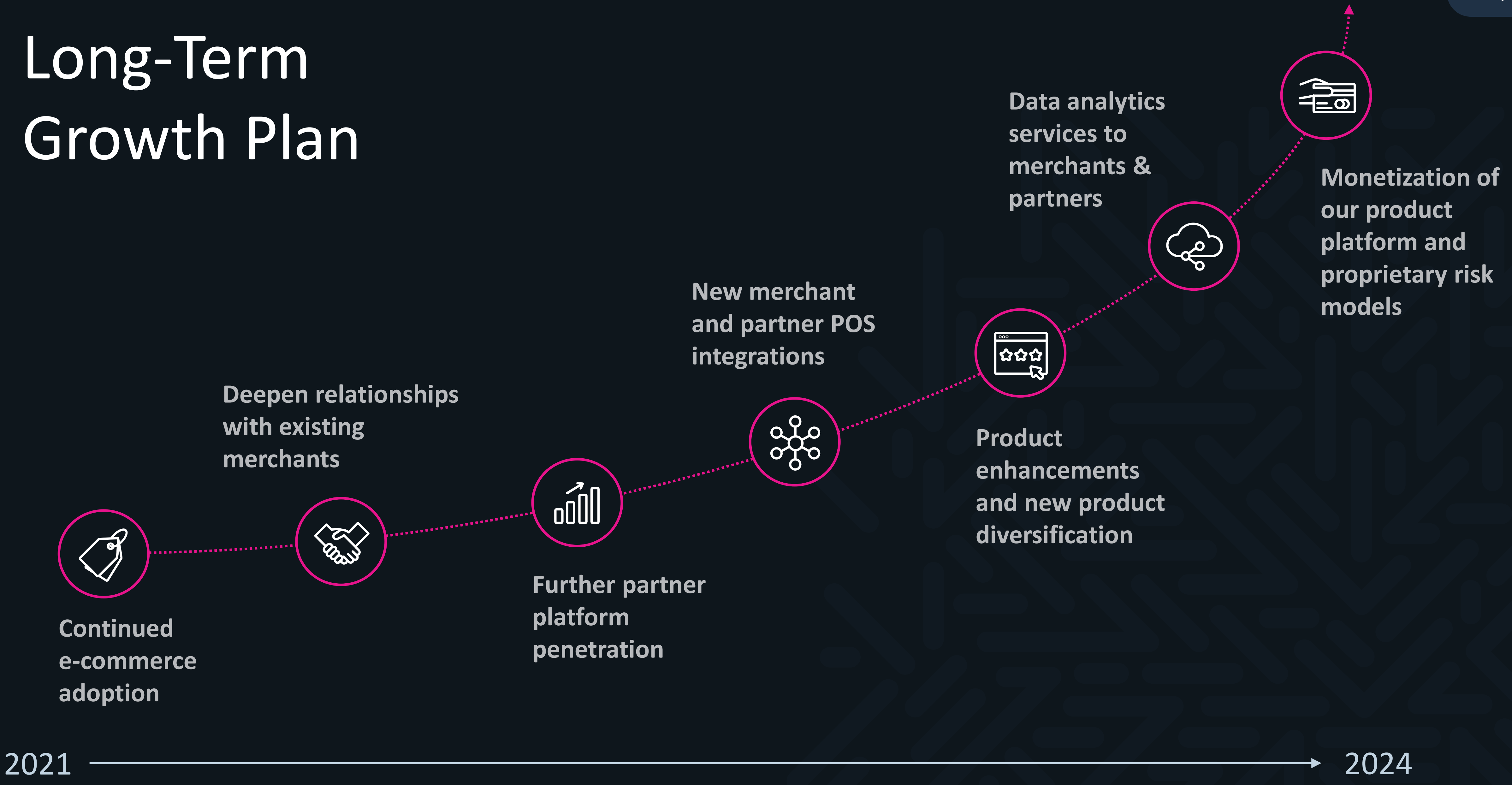
Near-term Initiatives

OPTIMIZE

- Ensure every qualified customer gets an offer that is right for them
- Maximize conversion rate and originated lease volume
- Expand merchant flywheel and win larger enterprise accounts

Medium-term Initiatives

Long-Term Growth Plan



Key Takeaways

- Positioned to take advantage of long-term trends of increasing adoption in digital commerce
- Deploying prudent underwriting strategy to manage macroeconomic conditions
- Continuing to plan for strategic growth over the medium and long term
- Adding new merchant partners at a steady pace across diversified end markets
- Hiring strong talent at leadership levels with public company experience to drive strategic execution

Appendix

Non-GAAP Reconciliation

Reconciliation of Non-GAAP Measures (Unaudited) **($ in thousands)**

	Three Months Ended Mar. 31	
Adjusted Gross Profit	2022	2021
Total revenue	$59,877	$80,635
Cost of revenue	$48,113	$52,882
Gross profit	$11,764	$27,753
Less:		
Servicing costs	$1,207	$1,138
Underwriting fees	$488	$467
Bad debt expense	–	$4,887
Adjusted gross profit	**$10,069**	**$21,261**

Non-GAAP Reconciliation

Katapult

Reconciliation of Non-GAAP Measures (Unaudited) ($ in thousands)

	Three Months Ended Mar. 31	
Adjusted EBITDA	2022	2021
Net (loss) income	$(5,558)	$8,090
Add back:		
Interest expense and other fees	$3,801	$4,140
Change in fair value of warrant liability	$(3,089)	$358
Provision for income taxes	$35	$1,825
Depreciation and amortization on property and equipment and capitalized software	$122	$48
Impairment of leased assets	$(551)	$(625)
Stock-based compensation expense	$1,089	$80
Transaction costs associated with the merger	–	$676
Adjusted EBITDA	**$(4,151)**	**$14,592**

Non-GAAP Reconciliation

Reconciliation of Non-GAAP Measures (Unaudited) ($ in thousands)

	Three Months Ended Mar. 31	
Adjusted Net (Loss) Income	2022	2021
Net (loss) income	$(5,558)	$8,090
Add back:		
Change in fair value of warrant liability	$(3,089)	$358
Stock-based compensation expense	$1,089	$80
Transaction costs associated with the merger	–	$676
Adjusted net (loss) income	**$(7,558)**	**$9,204**

ASC 842 IMPACT

For Illustrative Purposes Only*

(Unaudited) ($ in thousands)

	Three Months Ended							
	12/31/21	**9/30/21**	**6/30/21**	**3/31/21**	**12/31/20**	**9/30/20**	**6/30/20**	**3/31/20**
AS REPORTED								
Total revenue	$73,299	$71,710	$77,469	$80,635	$73,358	$71,194	$60,014	$42,634
Bad debt expense (net of recoveries)	$9,450	$5,936	$8,026	$4,887	$6,450	$3,931	$2,548	$3,134
Income (loss) before provision for income taxes	$7,213	$14,548	$(9,931)	$9,915	$3,996	$10,073	$5,199	$3,749
SUPPLEMENTAL INFORMATION – IMPACT OF ASC 842								
Total revenue under ASC 842	$64,253	$66,277	$69,472	$77,558	$67,060	$67,410	$59,721	$39,428
Bad debt expense (net of recoveries) under ASC 842	-	-	-	-	-	-	-	-
Income (loss) before provision for income taxes under ASC 842	**$7,617**	**$15,051**	**$(9,902)**	**$11,725**	**$4,149**	**$10,220**	**$7,454**	**$3,677**

* Table above shows supplemental information for total revenue, bad debt expense (net of recoveries) and income (loss) before provision for income taxes as if the lessor accounting impacts of ASC 842 were in effect for the periods above, including the change in revenue recognition from accrual basis to when revenue is earned, and cash is collected and no recording of bad debt expense.

Katapult