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Katapult Holding, Inc. and FinServ Acquisition Corp. Conference Call

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PRESENTATION

William Maina

Good day, ladies and gentlemen. Thank you for standing by. Welcome to the Katapult Holding, Inc. and FinServ Acquisition Corp. Conference Call. We thank everyone for joining us today.

The information discussed today is qualified in its entirety by the Form 8-K that has been filed today by FinServ Acquisition Corp., and may be accessed on the SEC's website at www.sec.gov, including the exhibits thereto.

During this call, we will be referring to an Investor Presentation, which can be found on the Investor Relations section of Katapult's website, FinServ Acquisition Corp.'s website, as well as the SEC website. Please review the disclaimers included therein, and refer to that as a guide for today's call.

Statements made during this call that are not statements of historical fact constitute forward-looking statements and are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from those contemplated in these forward-looking statements. Existing and prospective investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of today's date. For more information, please refer to the risks, uncertainties and other factors discussed in FinServ Acquisition Corp.'s SEC filings. All cautionary statements that we make during this call are applicable to any forward-looking statements that we make whenever they appear. You should carefully consider the risks, uncertainties and other factors discussed in FinServ Acquisition Corp.'s SEC filings.

For everyone on the phone call, Katapult Holding and FinServ Acquisition Corp. will not be fielding any questions on today's call.

Hosting today's call are Lee Einbinder, CEO of FinServ Acquisition Corp., Orlando Zayas, CEO of Katapult, and Karissa Cupito, CFO of Katapult.

With that, I'd like to turn the call over to Lee Einbinder, CEO of FinServ Acquisition Corp.

Lee Einbinder

Thank you. Hello, everyone, and thank you for joining us today. We are excited to announce and discuss with you our proposed business combination between FinServ and Katapult.

As discussed in our press release issued today, FinServ has entered into a definitive agreement and plan of merger with Katapult, a leading point-of-sale e-commerce platform providing alternative payment solutions for retailers and non-prime consumers.

Together with my partner, Howard Kurz, FinServ completed its initial public offering in November 2019, raising $250 million, with a focus on fintech and financial services companies. Since going public, we have been very disciplined in our approach to finding a company in a sector that we know well, and to bring a high-quality deal to market at what we believe is a compelling valuation. After evaluating over 800 companies, and doing a deep-dive on approximately 100 of them, we believe Katapult is absolutely the best transaction we have seen to bring to market, meeting all of the acquisition criteria we set forth on our IPO. These include:

- An outstanding Management Team, who have strong backgrounds with large sophisticated financial institutions. This team has been running Katapult for three years now, delivering exceptional results, and we believe they are only at the beginning stage of driving this company to its full potential.

- They have a leading market position. Katapult has built a powerful e-commerce technology platform with engaging digital experiences to serve its customers and retail partners, which has enabled it to become the leading e-commerce merchant platform for its target base of non-prime consumers.

- They have a huge TAM. The point-of-sale e-commerce market for durable goods to the non-prime consumer is estimated to be $40 billion to $50 billion annually, and Katapult only has less than 1% of that market today.

- They have a disrupting technology. Katapult benefits from strong secular tailwinds towards e-commerce, and is the only company focusing at the point-of-sale for durable goods with a digital application for the non-prime consumer market.

- They have a resilient business model. Their business should perform well over the economic cycle, and we actually believe the company may perform better in a more challenging economy.

- They have a strong financial profile. Katapult has grown revenues over 100% a year under the current Management Team and, more importantly, has achieved critical scale this year, expecting to generate $40 million of EBITDA this year, and is conservatively projected to grow to $70 million in 2021, with a significant merchant backlog already built into the forecast. We believe revenue, EBITDA and earnings will continue to grow at extraordinary rates, in excess of a 75% compounded annual growth rate over the next several years.

- Katapult is very much a technology company with strong operating leverage, little capital required and minimal marketing expenses which are required to grow the business going forward, as it relies on its merchants and waterfall partners.

- Katapult does not need to rely on any additional leverage to achieve its growth objectives, and we believe there will be significant excess capital generated over the next several years which can be used for M&A, dividends or stock buybacks.

In summary, we believe Katapult is only scratching the surface of a tremendous organic growth opportunity with their existing target merchants and consumers, and they will continue to benefit from the accelerated migration to e-commerce purchases.

On Slide 6, you will find the key terms of the proposed transaction. The company's pro forma enterprise value is just under $1 billion, representing 14.1 times 2021 EBITDA and 6.6 times projected '22 EBITDA, which we find compelling for a company growing close to 100% on an annual basis.

This transaction will be funded through a combination of FinServ stock, $250 million of cash held in trust, and $150 million of cash raised from PIPE investors. After the transaction, existing shareholders of Katapult will own approximately 50% of the company. Closing is expected in the first half of 2021, subject to closing conditions.

Now, it is my pleasure to introduce Orlando, CEO of Katapult, who will provide an overview of the company.

Orlando Zayas

Thank you, Lee.

I'm also very excited about the transaction to bring Katapult to the public markets as we continue to rapidly scale our business.

Our Investor Presentation contains a lot of great information about our company. We don't have time to go through all of the slides in the presentation today, but I will walk you through many of the key slides, which I believe really tell the Katapult story and why we are so excited about the future of our company.

I'm joined here today with Karissa Cupito, our CFO. Karissa and I have been with Katapult since 2017, and have worked together since 2013.

As Lee mentioned, Katapult is a leading e-commerce platform providing alternative payment solutions for retailers and consumers. Today, approximately 40% of consumers struggle to get the things they need for their daily lives, like furniture, appliances and electronics. With the dramatic increase of e-commerce in recent years, much of the non-prime consumer segment was left behind. We believe consumers should have more options and flexibility to get the products they need at a reasonable price, with full transparency and no hidden fees.

This is where Katapult's value proposition for both merchants and consumers comes into focus. Katapult provides an attractive financing solution for non-prime consumers to access the essential products they need for everyday living. Since our inception in 2014, we have focused on opening new opportunities for the consumer to access products from big-name retailers, like Wayfair, Lenovo, Purple, and many more. In the past, they had little choice. We've adopted the lease-to-own financing option that offers transparency, flexibility and reasonable pricing. For the merchant, we bring incremental shoppers and a new customer base, and for consumers, we bring flexibility and access to high-quality e-commerce retailers offering the products that they need.

I'll cover some quick facts about our business:

- We have over 150 online merchants on our platform and over 1.4 million consumers have been approved for shopping.

- We offer consumers a seamless, frictionless process to quickly checkout and access the items they need. Our application process is easy, clear, and it takes less than five seconds to receive a decision.

- We see tremendous greenfield opportunity, with less than 1% penetration of our target market.

- Our growth has been dramatic over the last several years and we believe that there is much more runway for building this business. We have seen over 100% origination growth annually for the last three consecutive years, and, as Lee pointed out, we're scaling rapidly and profitably.

My vision for Katapult looking forward is that our growth will be driven by:

- Deepening our relationships with existing merchants and waterfall partners, like Affirm.

- Increasing the availability and options for non-prime financing to our customers.

- Adding more high-quality retailers and solutions that give choice, flexibility and opportunity for this consumer segment.

Turning to our addressable market opportunity, we estimate the point-of-sale e-commerce market for durable goods to non-prime consumers to be about $40 billion to $50 billion annually, and Katapult has less than 1% of that market today. We also believe the lease-to-own option kicks open the marketplace and will grow in any economic cycle.

For consumers, Katapult provides clear, transparent, compelling value, and the flexibility to continue leasing, exercise an early purchase option or return their items at any time. We work closely with our consumers when a crisis or other payment issue arises, to help them get to ownership. There are no hidden fees or charges. In fact, we never charge a late fee—ever.

Once a consumer has leased with us, we interact with them constantly to share the benefits of the lease, including its flexibility and options to reduce their cost of ownership to fit their budget. Our goals are aligned with the retailers and consumers. By delivering a great experience, we want the customer to come back and have a lifetime relationship with us and our partners.

We have a customer repeat rate of over 45%, providing a strong Net Promotor Score of 47. It is proof we are providing a needed option in this market.

From the tech side, Katapult is born and bred in e-commerce, and we're 100% digital. We have built a strong Tech Team composed of developers and data scientists that are e-commerce trained and understand both the merchant and consumer sides of the business.

On Slide 24, you can see how our technology fuels the way we integrate with our merchants. We are integrated on many of the known shopping platforms, like Magento and Shopify. If a merchant is on a platform where we are integrated, it takes as little as 30 minutes to complete an integration and be a financing option in their shopping cart. Additionally, our Tech Team has completed custom integrations quickly and easily for other merchants, like Lenovo, who have a proprietary shopping platform.

Our best and leading industry integrations come from our prime lending waterfall with select prime lenders, like Affirm. Affirm chose to integrate with us, creating a waterfall, where the application is input once, and with the consumer's consent, if Affirm declines that application, the data is electronically transmitted to Katapult and we have the opportunity to approve this consumer. Affirm markets this solution as Affirm Connect to their merchants. Since we signed the agreement with Affirm last year, we have already integrated 50 of their merchants on the Affirm Connect waterfall. We have tremendous opportunity with Affirm, and have identified around 900 merchants where the waterfall between our companies would expand growth opportunities.

On Slide 30, you can see how our Risk and Underwriting Teams deliver great results matched with a frictionless consumer experience. We require as little as seven fields to start an application, then utilize 100 gathered user attributes and over 2,000 third-party data elements to feed our proprietary risk decisioning process. We don't utilize traditional credit bureau information and have built our risk models using machine learning and AI to predict a consumer's payment behavior more accurately than traditional methods.

The more than 500,000 leases that we've enabled thus far are all possible due to our flexible, automated and customizable technology platform. This increases efficiency and supports merchant and consumer preferences.

Now, I will hand it over to Karissa Cupito, our CFO, to go over the numbers.

Karissa Cupito

Thanks, Orlando.

Turning to Slide 36, since 2018, we have doubled the business for three years in a row, and we are on track to double the business again in 2021.

When you look at the $402 million in originations forecasted for 2021, it's made up of two components:

- First, existing merchants. Seventy percent of this number comes from the annualized origination run rate of our existing merchants on the platform today.

- The second component is our near-term pipeline, which makes up the remaining 30% of the $402 million, and consists of merchants that are in advanced stages of our sales cycle. The potential annual volume of these merchants is estimated at close to $300 million, but we have only incorporated $120 million of this potential volume into our forecast.

I would note that what is not contemplated in the originations forecast are the additional merchants that will come from our own organic sales efforts and through our partnerships with companies, such as Shopify and Affirm, which provides us further confidence in delivering on these projections.

We turned net income and EBITDA positive in the first quarter of 2020. Because we're an e-commerce tech-driven business, we are highly scalable and require less than $100 million of trailing 12-month originations to cover our fixed cost base. By generating approximately $200 million of originations in 2020, we are on pace to hit $40 million of EBITDA this year. Our EBITDA will continue to increase as our originations grow, and we are forecasting EBITDA of $70 million in 2021, which is a 75% increase year-over-year.

Moving to Slide 37, when you break down this $70 million of EBITDA, there are a few key elements I would like to point out.

First, our return on lease performance has been consistently increasing every quarter due to the continuous improvement of our risk model, as well as our payment and collections processes. In our 2021 forecast, no additional return on lease improvement has been contemplated, so we believe there is upside to our gross revenue.

When it comes to direct lease costs, such as underwriting and servicing, we are assuming the same margins as 2020. As we continue to automate these processes and negotiate volume discounts with vendors, we anticipate additional cost savings on a go-forward basis, none of which are contemplated in the projections.

One last important note as it relates to our financials is our consumer acquisition costs. Given our B2B2C model, we can maintain very low marketing expenses despite high growth, because the merchant is our customer acquisition engine, and as a result, we only spend approximately 0.1% of gross revenue on direct marketing.

Looking at our capital structure and liquidity, on Slide 38, we are a well-capitalized company. We are forecasting to have over $60 million of unrestricted operating cash on our balance sheet at the end of this fiscal year. In addition, we have plenty of capacity with our asset-backed facility to fund our projected growth, as we have only used 60% of the committed amount to date, and also have the option to double the size of the facility in the future.

Now that we have achieved scale and significant operating leverage because our cost base is so low, we will continue to accumulate cash on the balance sheet. We will look to deploy this capital on new product development and opportunistic M&A activity to further expand our market reach and accelerate revenue growth. As part of our capital allocation strategy, we will also assess over time whether we pay down debt, pay dividends or repurchase shares with the excess cash flow generated from the business. We will make this decision at the right time with maximum shareholder return in mind.

Now, I will send it back to Lee to discuss valuation.

Lee Einbinder

Thanks, Karissa.

I'll wrap up by discussing our thoughts on valuation and why we believe this is a compelling opportunity, compared to other public peers.

Within our peer group, there are clearly many different companies that are involved with payment at the point-of-sale. This group includes Affirm, which is looking to go public soon, and, as Orlando has said, is a very close partner of Katapult, with a very similar business philosophy. There are also buy-now-pay-later companies, such as AfterPay and Sezzle, which are listed in Australia, PayPal, which also now offers a buy-now-pay-later product, and Repay, a payment platform for consumers and merchants which has many similar characteristics to Katapult and was also a successful SPAC transaction last year. Lastly, there is Progressive, which is essentially a bricks-and-mortar version of Katapult and recently became an independent public company.

On valuation, what really distinguishes Katapult is our superior growth and current profitability. Katapult is projected to grow revenues approximately 80% per year over the next two years, and EBITDA at close to 100% annually. None of our peers have the same growth characteristics as Katapult. The highest growth peer would be AfterPay, which trades at approximately 30 times revenue and over 50 times EBITDA. Even if you compare us to Progressive, our EBITDA is growing at more than 10 times their rate, and our 2022 EBITDA multiple of 6.6 times is at an approximate 25% discount to where they are trading.

When you look at our valuation and take into account the projected top line and bottom line growth, combined with our unique position in a relatively untapped market with a superior technology platform, we believe there is plenty of upside to our valuation from here.

So, hopefully, after listening to this presentation, you can see why FinServ is so excited about bringing you this investment opportunity today. We thank you very much for participating and we look forward to communicating with you in the weeks to come.

This concludes our presentation.