sezzle

The way forward.

ANNUAL REPORT

2019

OUR MISSION

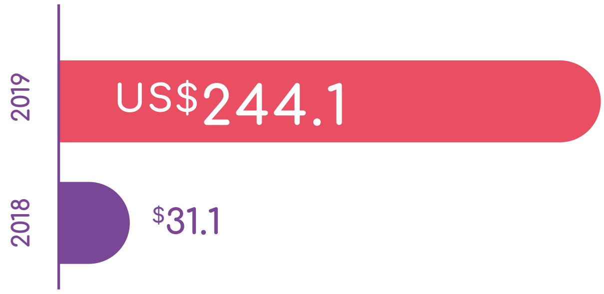
Financially empowering the next generation

sezzle

CONTENTS

Key Performance Metrics

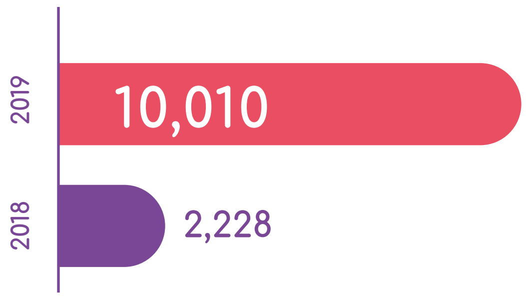
UNDERLYING MERCHANT SALES (UMS) ($000,000s)



685%

Underlying Merchant Sales (UMS) increased by 685%.

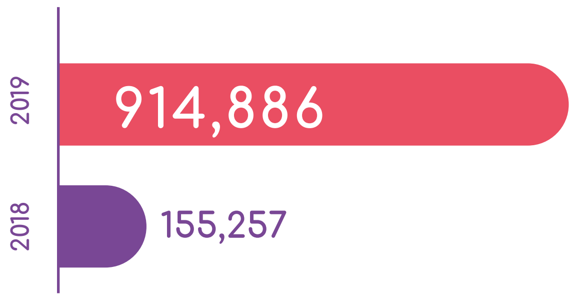
ACTIVE MERCHANTS



349%

Active Merchants increased by 349% and exceed 10,000.

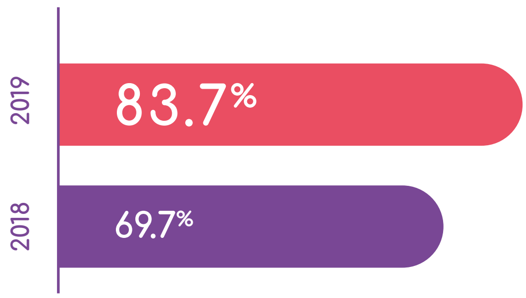
ACTIVE CUSTOMERS



489%

Active Customers increased by 489% and are quickly approaching 1MM.

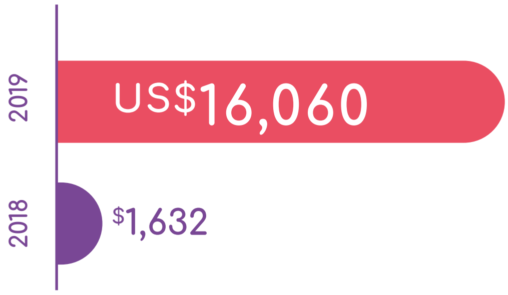
REPEAT USAGE



14PP

Repeat Usage increased 14 percentage points (pp) and is calculated as the percentage of cumulative orders made by returning End-customers to date relative to total cumulative orders to date. This is an indication of increasingly positive user experience and growing brand loyalty.

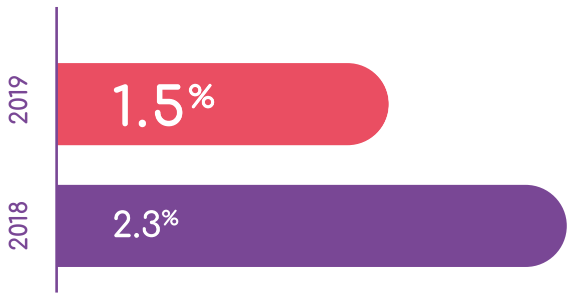
TOTAL INCOME ($000s)



884%

Total income increased by 884% from 2018 to 2019 reflecting strong top-line growth.

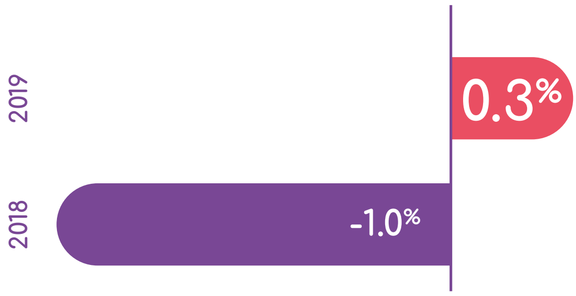
NET TRANSACTION LOSSES AS A PERCENTAGE OF UMS



0.8PP

Losses as a percentage of UMS decreased from 2.3% in 2018 to 1.5% in 2019 reflecting disciplined credit risk management and increased repeat usage by End-customers.

NET TRANSACTION MARGIN AS A PERCENTAGE OF UMS



1.3PP

We went from negative Net Transaction Margin in 2018 to positive Net Transaction Margin in 2019.

About Sezzle

A NEXT GENERATION PAYMENTS PLATFORM FOR A NEW GENERATION OF CONSUMERS

Sezzle is a technology-enabled payments company based in the United States with operations in both the United States and Canada. The Company is traded on the Australian Securities Exchange (ASX) under the ticker SZL. Sezzle's mission is to financially empower the next generation. This mission is accomplished by enabling merchants to offer customers a more consumer-friendly credit alternative. Many consumers today are locked out of the existing credit system or prefer not to use payment methods that can get them into debt or hurt their credit scores. Sezzle provides a flexible, reliable, transparent, and secure alternative to the incumbent payment options traditionally available to everyday consumers.

The Company offers its payment solution in online stores and a select number of brick-and-mortar retailers. Sezzle connects consumers with merchants via a proprietary payments solution that instantly extends credit at point-of-sale, allowing consumers to purchase and receive the items that they need now while paying over time in interest-free installments.

Merchants turn to Sezzle to increase sales by tapping into Sezzle's existing user base, improving conversion rates, raising spend per transaction, increasing purchase frequency, and reducing return rates, all without any credit risk to the merchant. Sezzle is a high-growth, networked platform that benefits from a symbiotic and mutually beneficial relationship between merchants and consumers.

Sezzle pays merchants the value of underlying sales net of transaction fees. Sezzle charges merchants for facilitating the purchases by End-customers transacted on their retail web sites and select on-site locations.

Merchant fees are generated on each individual, approved order placed by an End-customer through the Sezzle Platform. The fee is predominantly based on a percentage of the End-customer order value plus a fixed transaction fee.

Sezzle does not charge interest or initiation fees for offering credit to customers.

Reschedule fees and failed payment fees are another source of income for the Company. Reschedule fees are not a major driver of Sezzle Income, but may be applied to End-customers who need to shift their payment schedules. Sezzle limits reschedules to two weeks from the originally scheduled date and allows End-customers to reschedule once per order for free.

Additional reschedules on the order are levied a fee and are dependent on the shopper agreeing to pay that additional fee.

Failed payment fees are applied in cases where the End-customer's payment fails in the automated payment process. In these instances, the fee is waived if the End-customer makes a payment within two days' time. End-customers temporarily blocked from transacting with Sezzle for failure to make a payment, and who wish to continue to use Sezzle, must settle their arrears and any accrued failed payment fees before being allowed to make additional purchases on the Sezzle Platform.

Message from the Executive Chairman and CEO

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CHARLIE YOUAKIM,
CHAIRMAN AND CEO

In the year ahead, we will double down on our commitment to financially empowering the next generation of consumers.

Dear Fellow Shareholders,

We are excited to report that we experienced tremendous growth across all our key operating metrics in 2019. This growth, coupled with becoming of a publicly traded company in July, solidified our position as the leading US-based installment payments platform. Our team is committed to our mission of empowering the next generation of consumers and building a brand that makes our stakeholders proud. We forge into 2020 with the momentum of 2019's tremendous success and plans to make a significant impact in the years ahead.

This inaugural Annual Report has a very different look from previous Sezzle investor and marketing materials. This Annual Report marks the unveiling of Sezzle's new brand. Indeed, this new brand, which we hope you love as much as we do, better reflects who we are as a company and where our business is heading.

FINANCIALLY EMPOWERING THE NEXT GENERATION

Our mission at Sezzle – it's even chiseled on the walls of our headquarters – is "financially empowering the next generation." Gen Z and millennial consumers across the globe are looking for new and dynamic ways to pay and also for long-term partners in their financial journeys. Since our founding, we have always been consumer-first in our thinking and actions. We are proud to be a trusted partner and brand for many Gen Z and millennial shoppers across North America. In the year ahead, we will double down on our commitment to financially empower the next generation of consumers, by expanding our array of product offerings to increase our value proposition to our shoppers and merchants and broadening our footprint both into new sectors and across new territories.

2019: A STORY OF STELLAR GROWTH AND COMMITTING TO THE HIGHEST STANDARDS OF GOVERNANCE

At Sezzle, achieving stellar growth and committing to the highest standards of corporate governance are two sides of the same coin. As evidenced by our tremendous growth in 2019, we believe that we can continue to deliver high growth performance metrics in a responsible, sustainable manner throughout 2020 and well beyond.

As such, we filled the past year with many important milestones and achievements outlined here:

HIGH GROWTH FOCUS WITH A PUBLIC COMPANY MINDSET

Our capital raise on the Australian Securities Exchange in mid-2019 gave us the cash injection to fuel our growth. Becoming a public company accelerated our transformation into a mature enterprise poised to achieve a market leadership position. Our DNA is still that of a high-growth company. We are still the savvy marketers and competent risk managers who propelled us to where we are today. Becoming a public company has had a transformative and positive impact on our governance structure, approach to sustainability, and corporate best practices.

STELLAR KEY PERFORMANCE METRICS IN 2019

Underlying Merchant Sales (UMS) on the Sezzle Platform – a key performance metric underpinning the symbiotic relationship between customer satisfaction and merchant success – totaled $244.1 million, up from $31.1 million in 2018, a marked 685% year-over-year increase. These impressive economic metrics were made possible by strong growth in the number of users on both sides of the Sezzle Platform. In 2019, Active Customers grew by over 489%, ending the year at 914,886, while Active Merchants grew to 10,010 compared to 2,228 at the end of 2018, an increase of 349%. Despite the increasingly large and varied size of consumers and merchants, Net Transactions Losses (NTL) improved to (1.5%) of UMS and Net Transaction Margin (NTM) turned positive in 2019, ending the year at 0.3% of UMS. This dynamic is proving that Sezzle can scale its business while mitigating risk, improving unit economics, and securing operational and financial efficiencies.

We believe that we can continue to deliver high growth performance metrics in a responsible, sustainable manner throughout 2020 and well beyond.

KEY DRIVERS OF GROWTH

We are always focused on ways to efficiently expand our prospects.

Our mid-year entry into the Canadian marketplace represented a significant opportunity for our company because it marked Sezzle's first territorial expansion outside the United States. We know that territorial expansion will undoubtedly be one of the tools that we use to continue to push forward on our growth.

During 2019 we also leveraged partnerships as a growth driver. We forged several key strategic partnerships that are enabling broad, large-scale adoption of the Sezzle Platform by entirely new communities of merchants. Expanding our reach with merchants through these partnerships enhanced our unit economics by decreasing merchant acquisition costs.

To support this exceptional growth, we need to fuel it with capital. In December of 2019, we announced a new $100 million debt funding facility to supply that fuel. This funding has given our company the added financial wherewithal to accelerate our Underlying Merchant Sales in the year ahead.

DATA AND PRIVACY

In our business, data is the key to nearly everything. We are keenly aware of the importance of data security and data privacy. To this end, our engineering and data science teams have made data security priority number one. We take pride in knowing that Sezzle's customer, merchant, and employee data is safe and secure.

CORE VALUES

Everything at Sezzle boils down to who we are as a company, and the key to capturing our corporate ethos is to understand our guiding principles and core values. At Sezzle, from the CEO down to the newest employee, we are committed to:

- Creating a company identity synonymous with **Strong Character**, rooted in integrity;
- Fostering a culture of **Excellent Communication**, with a steadfast focus on openness and transparency;
- Developing and supporting a **Passionately Engaged** workforce;
- Harnessing a tireless esprit de corps, being **Driven to Succeed** and wanting to win, by focusing on making ourselves better;
- Preserving a work environment that encourages overall wellness, happiness, and **Having Fun**.

As we have grown in complexity and size, we have not wavered from these core tenets. Our company ethos has remained stable and forms the foundation of what we aspire to be—a genuinely revolutionary high-growth financial technology enterprise.

PRO-ACTIVE APPROACH TO REGULATION AND OVERSIGHT

The 'buy now, pay later' space is new in North America, and, as the marquee US-based leader in the space, we aim to become the lodestar for regulators seeking to better understand this emerging area of commerce.

Our consumer-friendly product puts us in a positive light with regulators who are typically focused on predatory lending practices. However, it's possible we have relied too much on the assumption that the consumer-friendly nature of our product is self-evident. The state of California ruling on our lending license application—since resolved—was an example of a misstep that we are taking steps to prevent in the future.

We have been proactive with regulators in the past, but our focus in this area will increase in 2020. In October of 2019, we sought out an audience with the US Consumer Federal Protection Bureau to give officials an overview of our consumer-friendly product and our burgeoning sector. It was a highly productive meeting that exemplifies what we need to do throughout the US and Canada with federal, state, and provincial oversights. We will seek out constructive dialogue with these regulators, enabling us to address issues head on, before they become problems.

Our payment product is very new in North America. Because of this, we feel it is incumbent upon ourselves, as the leading US-based platform in this sector, to help inform and educate US and Canadian regulators. We will spend a good part of the upcoming year meeting with lawmakers and policymakers on an array of emerging issues relevant to this category to help shape the narrative. We know we are the type of business they want to support.

OUR SECRET WEAPON: SEZZLE'S CORPORATE CULTURE

In 2019, our company's roster of full-time personnel nearly doubled in size. We continue to build our capabilities across sales and business development, engineering, risk management, and other core strategic growth areas. Despite a tight U.S. labor market, Sezzle is drawing in significant interest and demand for our open positions. In 2019, we had well over 2,000 applications during our recruiting process to fill 30 roles. This strong inbound applicant pipeline is an essential dynamic in a fast-growing company. This pipeline allows us to not only find the most competent and skilled people to join our ranks but also those who embody our core values. We know that the right corporate culture is a crucial driver of its long-term success, which is why we are so focused on it.

We believe in the power of diversity: diversity in ethnicity; diversity in socio-economic background; diversity in age, gender, and gender identity; and diversity in beliefs. We also believe in a healthy, mission-driven corporate culture. One might say that our culture, which supports transparency and steadfast dedication to empowering and supporting the consumer, is our secret weapon. We believe being open and transparent about what we do and how we do it is not at odds with driving income growth and charting a course towards profitability. Instead, we believe that it is precisely the embodiment of these values that will enable us to achieve our objectives swiftly and with limited external friction.

WE ARE ALL IN THIS TOGETHER: SEZZLE'S COMMITMENT TO SHARED RESPONSIBILITY AND STAKEHOLDER VALUE.

Sezzle is a company with its finger on the pulse of millennials and Gen Z consumers. One of the fundamental characteristics of this age cohort is the sense that their loyalties will not merely follow brands that are a means to an end. For millennials and even more so for Gen Z, good corporate citizens must not only be good at what they do – they must be agents of good. Sezzle has made a firm commitment to delivering value across the entirety of its stakeholder ecosystem: **consumers, merchants, employees**, the **community** at large, and of course, our **shareholders**.

One of the core concepts embedded in every critical decision that we make at Sezzle is the notion of a "mission-driven approach to profit."

Our focus is not on cutting corners, but on finding faster and more innovative ways to get to the finish line. We hire the very best people and let them take the reins. We encourage a culture of thinking outside of the box and trying new things. Most importantly, we encourage listening to our customers and retail merchant partners and engaging in an open dialogue with all of our stakeholders.

We now have over 10,000 merchants on our Platform, ranging from small 'mom-and-pop' online stores to billion-dollar retailers. We understand that we cannot always take a one-size-fits-all approach to meet their needs and expectations. In 2019, we began developing an array of new product offerings to meet the specific needs of small, medium, and large-sized merchants. We've also started testing a variety of in-store payment solutions for brick-and-mortar clients and customers who prefer to do their shopping in person.

On the consumer front, we've taken up several initiatives aimed at creating useful and compelling tools to help our End-customers with payment scheduling, budgeting, and financial education. We believe that supporting our consumers to take control of their finances is in the long-term best interest of Sezzle.

Shared responsibility is a cornerstone of our organization. We've partnered with select merchants who have socially-driven causes to support our consumers' desires to give back and support their communities.

Something I am particularly proud of is how strong the culture of giving back is among Sezzle employees. Throughout 2019, Sezzlers, as we call our team members, volunteered countless hours of their own time in their communities, non-profits, and other service-oriented organizations.

The initial public offering on the ASX raised US$30.3M of growth financing

Sezzle is a company predicated on removing barriers and enabling consumers to buy the things they need today with a financially responsible way to pay. We believe that the percentage of our income derived from failed payment fees is the lowest of our competitive set. We pride ourselves on being the only payments platform that offers free rescheduling of payments. We endeavor to grow in partnership with our customers, not despite them.

We view all of our stakeholders as symbiotic components of a flourishing Sezzle ecosystem. Each piece is accretive in nature, making the whole more powerful than the sum of its parts. Shareholder value is not just about bottom-line profits. That's an unsustainable vision. Long-term shareholder value will only come from the culmination of an innovative and hardworking workforce, satisfied customers, growing merchants, and a company that gives back to its community. We are steadfast in our belief that the stakeholder approach to winning is the right path. This belief is an immutable core underpinning of our corporate philosophy.

STRONG FINANCIAL POSITION

We ended 2019 in a strong financial position. The initial public offering on the ASX raised USD 30.3 million of growth financing, which enabled us to invest in key strategic areas. We added to our financial strength with our new credit facility. The new facility will fund significant growth as every additional dollar of capital supports $14 of Underlying Merchant Sales.

We find ourselves in a great situation due to our merchant diversification. A large number of small merchant partners is a winning strategy. This dynamic turns a merchant loss into a relative non-event, which is powerful. We ignore this, though, and instead strive to keep every merchant on our platform. We keep our merchant partners happy, as indicated by public merchant ratings and our low churn rates. Low merchant churn means that our user growth will continue to tick up, which is something we love.

We end the year with $36.6 million of cash on hand, 123 employees plus 10 contractors spanning four countries, and a full head of steam for 2020.

BRANDING FOR THE FUTURE

Finally, as I alluded to above, in this report, we are unveiling our new logo and updated brand identity. As a consumer-first organization, we are continually listening to our customers and retail merchant partners. We take in their feedback and assess where we can make adjustments. Through this feedback, we learned that our brand didn't fully capture the dynamism, energy, and diversity that are the hallmarks of our company. We have fixed it.

The result of this process is the new logo, branding, and imagery that weaves its way throughout this report. The vibrant palette of colors reflects the inclusiveness and diversity that figures so prominently in our positioning.

The new logo is more accessible and leans into our core audience. The overall messaging conveys a more youthful feel, and, we hope, is more readily associated with our mantra of financial empowerment.

In short, we feel good about how much we have achieved and where we are heading in 2020.

On behalf of my co-founders and our senior leadership at Sezzle, I'd like to take this opportunity to thank our team of deeply committed coworkers. You continue to inspire us, challenge us, and help push Sezzle forward every day.

We at Sezzle believe we have tapped into something bigger than merely being a payments platform where buyers and sellers meet. It's increasingly evident to us, told through myriad merchant and customer testimonials, that Sezzle means so much more to its users than simply a way to pay. We increasingly see ourselves as being in the business of transforming lives, facilitating personal financial betterment, and preparing the next generation of consumers for the road ahead.

And that's something we will continue to fight for every single day.

Charlie Youakim
Executive Chairman and
Chief Executive Officer

Charlie.Youakim@sezzle.com

sezzle

SUSTAINABILITY REPORT

Building your tomorrow, today

We are in the business of doing good

Two out of three. That's the number of Americans under the age of 30 that are considered 'sub-prime' – a classification in the American financial system that indicates that an individual's credit score presents a substantially high default risk. A sub-prime credit score effectively locks out millions of Americans from access to lenders who finance products such as mortgages, credit cards, and auto loans.

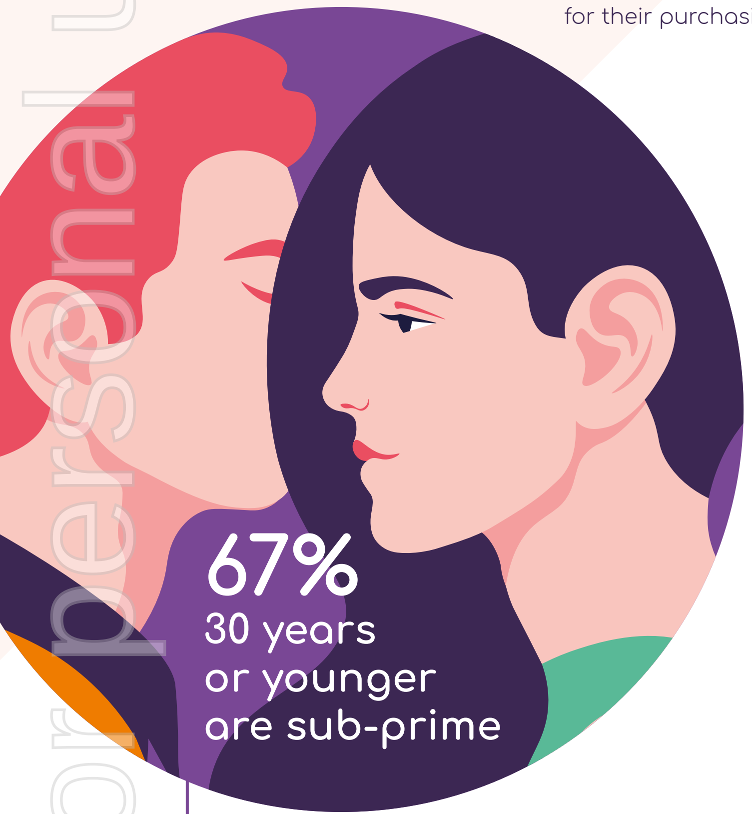
At Sezzle, we believe the algorithms used by third-party organizations to generate credit scores overemphasize the importance of credit history. As a result, many young Americans and Canadians are finding it increasingly difficult to get access to credit due to their stunted credit score.

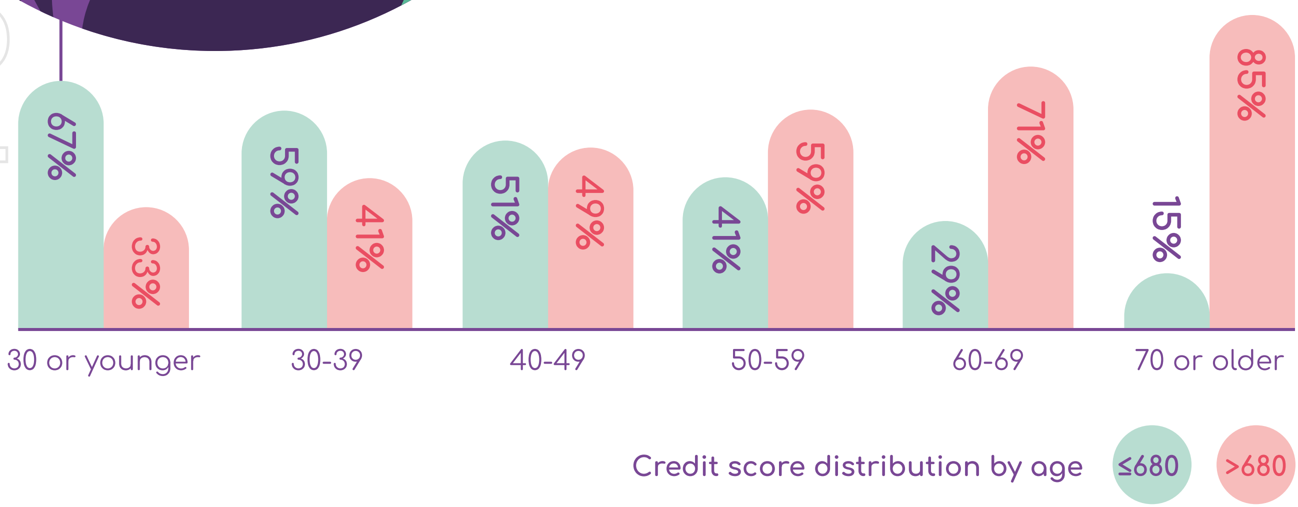
Due to this dynamic, Gen Z, the cohort born between 1997 and 2012, and millennials, those born between 1981 and 1996, have turned to debit cards and other cash-based equivalents for their purchasing needs.

This lack of access to credit disenfranchises large portions of the population from harnessing their real purchasing power. In turn, the impact of not using credit early on in life makes it more difficult for young adults to develop a credit history, critical to developing a good credit score in the future.

It was precisely from this vicious cycle in the credit marketplace, unfairly penalizing young adults, that the idea for Sezzle was born. We call these same young adults "prime-to-be" because we believe that they shouldn't be hampered in the building of a credit record when a low credit score is due to a lack of payment and credit history, not a lack of willingness to repay.

At Sezzle, we view these Americans and Canadians – those ill-served by the current credit system – as the heart and soul of our tomorrow. We believe in them, so we've built a product that supports them. We are empowering them with a way to pay, using credit, even if they have no discernible credit history. We are focused on empowering millions of Gen Z and millennial customers because we know that they will grow into prime credit customers in the years to come.





MEET THE SEZZLERS

We think of ourselves as "training wheels" for young credit users. We allow young adults to exercise their budgeting muscles with short-term financing on everyday goods and services. Our installment plans make it easier for those on a tight budget to buy the things they need today without incurring undue financial burden or paying massive interest charges.

One of our goals is to make this next generation of young adults across North America fall in love with our brand by using our product. We know that these young consumers will be our future, and if we do our job correctly, we'll be a part of their future, helping them gain their footing on their financial journeys.

We founded Sezzle on the principle of making consumers' lives more manageable and empowering them to live responsibly. We endeavor to serve our customers by enabling them to acquire the things they need when they need them without further aggravating their financial health. We view Sezzle as a vector through which consumers can take greater control over their finances and set themselves on a path for future success and growth. We are all about building a bridge to a better tomorrow, starting today.

In short, we believe that we are in the business of doing good, and it is this ethos that sits at the heart of the long-term sustainability of our company. As we grow in scale, expand geographically, and diversify our product offerings, our board and executive leadership will remain committed to the twin concepts of doing good and helping solve the real problems facing real people.

In 2019, we received well over 2,000 applicants to fill a mere 30 open positions. Two of the most frequently asked questions from applicants during the multiple interviews conducted throughout the year were, "What does Sezzle mean?" and "What is it like to be a Sezzler?"

There is no easy answer, of course. We don't include the word 'pay' in our name, as we don't see our long-term mission constrained by our flagship product offering in 2019 and 2020. Instead, we are building a company predicated on developing an intimate and integral long-term relationship with our End-customers.

We are fully committed to building the foundation for a trusted partnership with consumers, and a key to fostering this mindset within our company is, naturally, hiring the right people.

Although our workforce, which now numbers 133 employees and contractors, is highly diverse in its composition, it's a shared belief in our core values that binds us together. Sezzlers:

- Exhibit Strong Character
- Are Passionately Engaged
- Are Driven to Succeed
- Demonstrate Excellent Communication; and
- Have Fun.

We are proud of the diversity of our workforce and look forward to further expanding the company's heterogeneous makeup in the year ahead. We have a corporate culture and work atmosphere that embraces and celebrates the diverse array of political affiliations, religious persuasions, and sexual orientations that our employees bring to the organization.

Equally important is the diversity of experience and perspective of our company's workforce. Sezzlers speak 9 different languages and dialects and hail from 12 different countries and territories, representing a broad cross-section of cultural and socio – economic backgrounds and upbringings. This broad-based perspective within our ranks strengthens our ability to gather insights and better connect with our End-customers and merchant clients, who are equally diverse in their composition.

We are deeply committed to the notion that our diversity and openness makes us stronger and more cohesive as an organization.

Although our senior leadership team brings together decades of experience in their relevant areas of expertise, we are proud to have a workforce that reflects the younger nature of our core consumer base. Our average age of employee is 29 years old, comprised of a growing contingent of Gen Z, millennials, Gen X, and baby boomers.

**CAITLYN ROE
HEAD OF PEOPLE OPERATIONS,
MINNEAPOLIS, USA**

There is no greater asset to our company than our people – our 'Sezzlers' – a cohesive team united behind our core values. Our culture is a key to the long-term sustainability of our business and a strategic advantage when it comes to recruiting. Top talent wants to come and work at Sezzle not only because they believe in our mission and our business, but because it's a great place to work.

**EMMANUEL ISAAC,
FULL STACK SOFTWARE ENGINEER,
LAGOS, NIGERIA**

Although I am based on the other side of the world, I feel a real sense of connectedness to my teammates in Minneapolis. I've visited the office multiple times and my teammates there are like family to me. Our international presence also allows us to take advantage of a 24-hour workflow. When my teammates in Minneapolis prepare to go home for the evening, they hand off projects to our teammates in India, and then to me in Nigeria. When I'm getting ready to sign off, the team in the US is just getting started. This spirit of global connectedness and international sense of family among the team members are the aspects I most value with my work at Sezzle.

OUR COMMITMENT TO TRANSPARENCY IS LITERAL

Our main headquarters is in the heart of the North Loop area of downtown Minneapolis. It's a vibrant commercial district dotted with scores of trendy restaurants, coffee shops, galleries, boutiques, and start-up technology firms, making it a very desirable location for young workers. Our office, housed in an old warehouse building, mixes historic charm with a fun 'start-up' look and feel, with exposed brick walls butted up against full glass conference rooms. It's a place that our team loves and celebrates.

Our open office space fosters communication and transparency while creating ample opportunities for spontaneous cross-departmental interaction – an often-serendipitous form of instinctive connection. This connectedness sparks new ideas and brings innovation to life. The dearth of internal walls, scarcity of individual offices, ample communal areas, and the abundance of free snacks and beverages grant employees of all levels easy access to senior leadership and vice versa, breaking down the traditional barriers of the corporate hierarchy.

Sezzle employees enjoy an open workspace that fosters informal cross-departmental collaboration, idea sharing, and reinforces a shared sense of mission.

Education and learning are significant components of daily life at Sezzle. Industry workshops, all-staff 'Town Hall Meetings,' and off-site corporate events play a vital role at the company. As the workforce expands both in size as well as geography, our core values remain intact, and our cultural profile as a company remains strong and unified. We take our company culture seriously, and we invest in initiatives that nurture and cultivate the Sezzle esprit de corps. Members of our senior leadership team often lead lunches, learning sessions, and interactive forums that enable employees to engage with leadership, ask tough questions, and offer suggestions.

We believe that you reap what you sow, and we are committed to never taking our strong cultural identity for granted.

Our diverse yet culturally aligned workforce, situated in an open and transparent work environment that fosters personal interaction, has created a fertile breeding ground for breakthrough ideas, innovative problem-solving, and game-changing strategic thinking. Our culture has become a hallmark of Sezzle's successes to date. Sezzle's culture is an asset that furthers our corporate mission and firmly cements our shared sense of purpose.

SEZZLE: STRATEGIC INVESTMENT IN OUR PEOPLE

Our people are our greatest asset; they fuel the tremendous growth that we see on the horizon ahead. As such, we have invested significant resources in our 'People Operations' team to equip them to find, nurture, and support Sezzle talent.

At Sezzle, regular interaction and engagement between our people operations team members and staff are always encouraged. So many times, in a typical corporate environment, one only engages with human resources at the point of hiring, firing, or retiring. We take the opposite approach. We encourage employees at Sezzle to regularly share their experiences and perspectives with our people operations team, in a confidential setting, to ensure that there is an open line of communication between senior management and employees at all different levels of the company. This open dialog is an important feature that heads off potential areas for concern in the early stages, allowing senior management to gain insights into issues to which they wouldn't usually have access. According to the employment review site Glassdoor, Sezzle is rated 4.8 out of 5.0 stars, and has a 100% "would recommend the company to a friend" rating as of December 31, 2019.

All full-time employees are eligible to receive equity-based awards in addition to their standard compensation and benefits packages. We fully embrace the idea of shared ownership in the company's growth as we believe that equity participation is an extension of our shared values of the community. We hope that all employees become shareholders in our company.

We're in an excellent spot today with a highly diverse and gender-balanced workforce. But, we understand we must continue to invest in programs that ensure the long-term sustainability of our diversity, which we consider to be a core strategic asset. We have a variety of programs underfoot throughout 2020 that will seek to bolster our diversity and gender equality, particularly as it relates to management roles.

Another initiative we are planning to kick off in 2020 is developing a meaningful whistleblower policy for employees to raise concerns outside of the traditional hierarchical managerial lines of reporting. In consultation with external experts who specialize in this area, we will be developing a thoughtful and responsible set of procedures in which employees at all levels will feel comfortable and protected in coming forward and voicing their concerns about potential misconduct.

Sezzle is rated

stars according to the employment review site Glassdoor

One of the critical initiatives slated for 2020 is the formation of an external advisory board, comprised of seasoned, experienced leaders in fintech and payments, retail, SMBs (small and medium businesses), technology, public policy, consumer marketing, and other relevant areas. As we compile this external body of advisors, we will apply the same rigorous set of credentials as we do for every new employee with an eye towards cultural fit. Moreover, a vital prerogative of this advisory board is that it not only represents a diversity of opinions based on varied foundational and area expertise but that it reflects the broad cultural diversity and heterogeneity that we are seeking to foster within our company ranks.

2020: MORE INVESTMENT IN COMMUNITY STAKEHOLDERS

One area we began to develop in 2019, and look forward to expanding throughout the year ahead, is our corporate commitment to volunteerism and charitable initiatives. Sezzlers, by and large, are very generous with their time; many are involved outside of regular working hours with an array of charitable, religious, community-based, and other non-profit organizations.

Sezzle's leadership team plans to develop a meaningful set of initiatives and programs focused on targeted volunteerism and charitable giving that align with the company's mission of financially empowering the next generation. We already have a generous charitable matching program in place, but this is just a start.

Through mentorship programs, financial literacy programs, and a variety of other educational and community-based projects focused on personal finance and economic well-being, in 2020, we aim to more fully leverage Sezzle's domain knowledge to benefit the community at large.

Both in Minneapolis and at our Canadian headquarters in Toronto, we are fortunate to be located close to a large number of community-based organizations that focus on advancing women and disadvantaged youth in tech. Because of their missions and our proximity and penchant for supporting groups like these, it's our goal to find ways to help them and partner with them. We plan to develop a relationship with a leading organization in this charitable space.

CONSUMERS ARE AT THE HEART OF OUR PROMISE AND OUR MISSION

It's not uncommon to hear corporate executives use the phrase "consumer-first," but at Sezzle, our dedication to the End-customer is not just lip service – it's at the heart of who we are.

Over the past year, the number of Active Customers using Sezzle grew by 489%, positioning the company to break the one million Active Customer mark in early 2020. Although dispersed across many different demographics in the United States and Canada, a large portion of that growth stemmed from new Gen Z and millennial customers.

These two demographic subsets are substantial in size. There are approximately 80 million millennials in the US and Canada and another 90 million that comprise Gen Z. Although the majority of Gen Z have yet to become adults, every year over 4.5 million new members of this cohort turn 18 years old and enter the workforce, start college, or take up vocational training.

Demographers, generational experts, and consumer trend analysts are united in pointing out that although there are some shared characteristics between millennials and Gen Z, to treat them as the same would be a big mistake on the part of consumer-facing brands.

For this reason, Sezzle is investing heavily in developing a series of programs and initiatives focused on studying the Gen Z cohort and using the insights and learnings from these efforts to better engage with Gen Zers who are above the age of 18.

This dedication to serving our End-customers is the reason that our BBB (Better Business Bureau) rating was an A+ during 2019, our Trustpilot score is 4.8 out of 5.0 and, our Facebook reviews give us a 4.8 out of a possible 5.0. We are proud of these ratings and look forward to continuing to exceed our customers' expectations.

Active Customers using Sezzle grew by

489%

in 2019, positioning the company to break the one million mark early in 2020.

"

ALEX WILLIAMS OF THE NEW YORK TIMES, DESCRIBING GENERATION Z (9/18/2015)

With the oldest members of this cohort barely out of high school, these tweens and teens of today are primed to become the dominant youth influencers of tomorrow. Flush with billions in spending power, they promise untold riches to marketers who can find the master key to their psyche.

SEZZLE BELIEVES IN GEN Z

Simply put, our goal is to become the preferred payment platform for Gen Z. We believe that investing in this up-and-coming generation is a strategic pillar that will help guarantee our company's long-term financial success by cementing our brand as a preferred method of payment among this group.

The future is always on the mind of Gen Z. For a generation that grew up after 9/11 and lived through the 2008 financial crisis, this is a cohort that has learned that life can be unpredictable. Among the strongest tenets that unite the majority of Gen Zers in North America is their commitment to ensuring diversity in their workplace, embracing of all different types of lifestyles, interests, and vocations, and vigorously defending their right to a level playing field.

The other major trend that defines Gen Z is social media. Gen Z is a generation that grew up on Wi-Fi. Apps such as Snapchat, Instagram, and increasingly Tik Tok, are not only replacing the communication tools of millennials, but Gen Zers are finding new and compelling ways to use them. They are a digitally native generation that consumes media in a way that is profoundly different from any generation that came before them. The number of hours this generation spends on devices and screens outpaces that of any other generation, and many studies project that the number of hours Gen Z spends on devices will eventually approach the number of waking hours. Indeed, a recent study indicated that nearly 75% of Gen Zers' time outside of school or work is spent online.

Sezzle is a company with its finger on the pulse of Gen Z; we understand their values, how to connect with them, and what drives them. Our payments platform and user experience are optimized to engage with Gen Zers on their terms. We understand that for many Gen Zers, debt is a 'four-letter word" in the pejorative sense. One of our aims in connecting with the Gen Z cohort is to take the fear out of credit by creating an inviting, trustworthy payment solution. We want to create a payment system that is much more than merely a way to transact, but also a dedicated partner they can lean on for help with budgeting, planning, and preparing for the future. Many of our dedicated customer success specialists are themselves members of Gen Z, and bring invaluable insights to our engineering, product development, and marketing teams.

Because of the nature of our business, Sezzle takes precautions to avoid marketing directly to teenagers below the age of 18. Nonetheless, we are fully cognizant of the fact that the teenagers of today are not only far more digitally savvy than older generations but are exposed to a plethora of external influences much earlier than in generations past.

We understand that personal recommendations, word-of-mouth, and the cycles of digital virality are the quintessential hallmarks of how brands are recognized and ultimately adopted by this young generation. The bottom line is that our reputation matters with this group. We need to treat each consumer engagement and every customer transaction as if our company's future depends on it – because it does!

ZENAB KASHIF,
STUDENT AND ENTREPRENEUR,
AGE 21

"Sezzle helps me invest in myself. Because of Sezzle, I can buy higher quality items that I'll be able to use for a long time. I can use Sezzle to pay for these items over time and use the purchases to invest in my future and my career. The ability to stretch payments has taken a lot of stress and anxiety off my back.

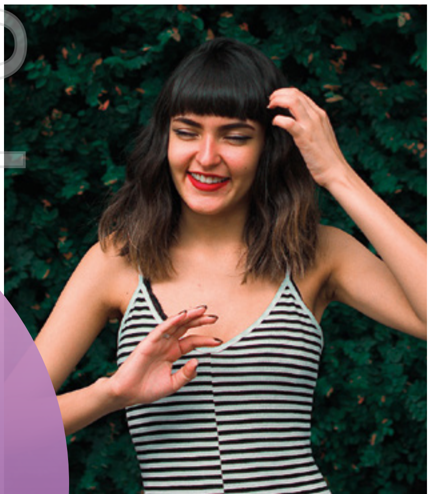
OUR NEW BRAND AIMS TO CONNECT WITH THE VALUES OF GEN ZERS

The new Sezzle brand, unveiled for the first time in a public forum in this annual report, is a reflection of our efforts over the past year to engage in a meaningful way with our core customer base.

We spent many hours listening to Gen Z consumers, logging their comments and suggestions, and transposing that feedback into tangible, actionable projects and initiatives. Over the course of 2019, our marketing division underwent a wholesale renewal, switching up the leadership and bringing in new talent. One of the very first projects of this new team was to set up a variety of focus groups and listening sessions to understand how our brand was viewed in the broader marketplace, and in particular by Gen Z. One consistent piece of feedback garnered through this process was that, although our customers love the user experience and really value the Sezzle platform, they felt that the brand didn't share that same level of dynamism.

As a result, we embarked on a mission to revisit our corporate identity and institutional brand. Everything was on the table. The feedback from these studies was clear: consumers wanted Sezzle's brand to reflect the energy and diversity that are the hallmarks of our product offering. The result of this process is not just the new logo that encompasses a wide range of colors. It's also a unique feeling that projects the Sezzle ethos in a much more forward-facing fashion while paying homage to our core pillars of transparency, inclusivity, and diversity that figure so prominently in our market positioning.



OUR TECHNOLOGY IS BUILDING A BRIDGE TO A BETTER TOMORROW

Although it would be correct to describe Sezzle as a digital payments solution, such a statement barely scratches the surface of what our company does. At its core, Sezzle is a powerful technology platform with a proprietary risk management algorithm managed by a team of experienced engineers, sophisticated data scientists, and steady-handed actuaries that safeguard the long-term stability and sustainability of Sezzle's business model.

Our intellectual property is the backbone of our business. It's created a strategic advantage that has put Sezzle's technology at the forefront of the payments industry. Our underlying code, technology-centered human resources, and data analytics capabilities combine to serve as both a formidable defensive shield and a strategic differentiator in the competitive landscape.

In the year ahead, we will be folding in additional resources to complement our technology team.

In 2020, we will invest in bringing on more human talent as well as adding to our existing investments in machine learning and artificial intelligence capabilities.

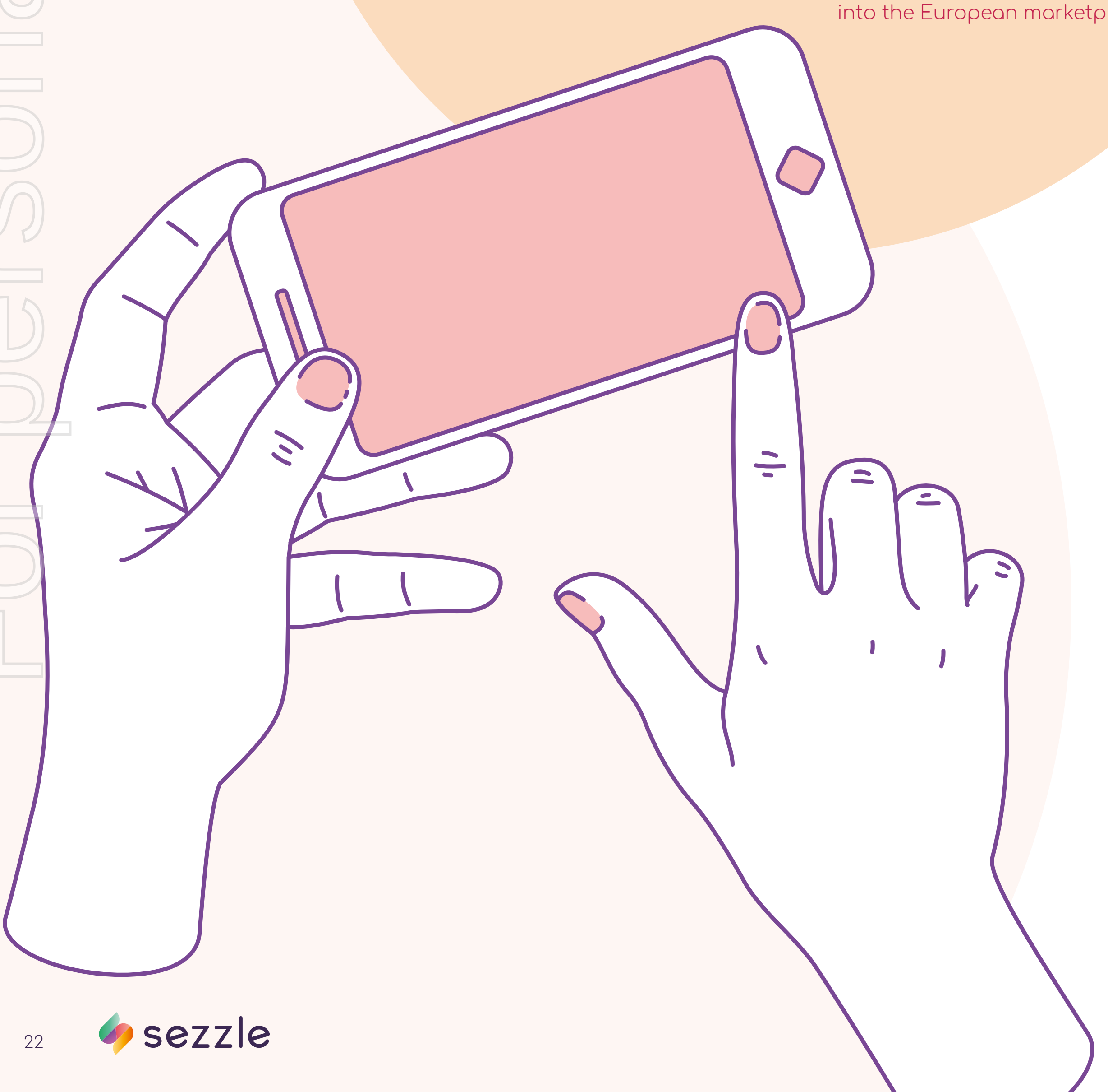
The end-result of Sezzle's massive deployment of resources into our technology matrix is a stable, secure, and high-performance suite of interconnected digital capabilities, management protocols, and human resources that are positioning Sezzle for a period of extensive, high-pitched growth.

THE METRO TARGET RETAIL ACCELERATOR PROGRAM POWERED BY TECHSTARS

Throughout 2019, executives from Sezzle participated in the METRO Target Retail Accelerator Program powered by Techstars, an elite program sponsored by US retail giant Target to identify breakthrough ideas and concepts that can be applied across retail.

Our executive team met with dozens of senior leaders within Target's organization over an intensive 12-week program. Our conversations with these leaders allowed us to distill how we could better serve a large-scale enterprise retailer with our technology.

Our team also spent a few weeks in Berlin meeting with METRO executives and technology thought leaders to help us gain insights into how our product might fit into the European marketplace.



At Sezzle, we have your back.

CONSUMER SAFEGUARDS

Our proprietary suite of technologies, intellectual property, patents, and know-how combine to deliver an unparalleled value-added experience for the End-customer while empowering our merchants to drive sales and increase basket sizes.

Our chief source of Income, nearly 81% of 2019 operating income, was generated from merchants who pay Sezzle a fee for every transaction conducted on the Platform. Our business model does not rely upon failed payment fees and other charges borne by the End-customer. Instead, we do everything in our power to help our users avoid fees. We take great care in our approval process, monitoring new customers for the first sign of non-payment. We keep limits relatively low for the first several transactions, allow one free rescheduling per transaction, and forgive failed payment fees if the customer makes good on their payment within 48 hours.

We have a robust compliance system to ensure that no consumer finds themselves using the Sezzle Platform as a vector for indebtedness.

We know that we will only be able to scale our business by keeping customer defaults and non-payments to a minimum. Despite the rapid pace of growth of our business throughout 2019 and the increasingly large pool of consumers using our platform, Net Transactions Losses (NTL) and Net Transaction Margin (NTM) continued to post positive trends. These improvements prove that Sezzle can scale its business while mitigating risk and improving unit economics.

Our business is predicated on consumer success, diligent repayment, and repeat usage. Nonetheless, we realize that life does throw curveballs, and one of our objectives for 2020 is to develop a hardship policy for consumers who have suffered legitimate life-altering events, enabling them to extend the stipulated repayment time without incurring fees or charges.

Another area of which we are particularly proud is our steadfast and immutable dedication to data privacy. In our business, data is everything, and consumers want to know that their information is secure with us. Sezzle's engineering and data science teams work diligently to ensure that our standards for managing user data not only meets but exceeds the international standards for data storage.
Our long-term sustainability as a company relies upon consumer confidence that their data is secure with us. This reliance is one of the reasons we have made a concerted effort to ensure that we host all data on secure servers.

Furthermore, we have provisioned data security protocols for disaster redundancy mitigation and business continuity plans that we believe will keep our platform operational in just about any fathomable scenario. Our disaster recovery team simulates these scenarios in tests to help ensure seamless continuity and service to our merchants and customers. Building on this strong foundation of operational integrity, in 2020 we will begin a multi – departmental exercise in strategic long-term planning, aimed at ensuring that we have the proper amount of resources, infrastructure, human capital, technology solutions, and environmental sensibilities to be able to secure a long-term, sustainable, and prosperous future for our stakeholders.

OUR MERCHANTS AND RETAILERS

At Sezzle, merchant success means our retailers see Sezzle as a pathway towards reaching new customers, increasing basket sizes, and growing order volume. 67% of North American consumers under the age of 30 have a sub-prime credit score, which effectively shuts them out from the traditional credit card market. For these consumers, online shopping has increasingly meant paying in full upfront with debit cards, which has stymied their overall spending power. For these consumers, Sezzle unlocks their purchasing power and enables them to stay within their budgets. For the merchants on our platform, we are delivering a new customer base to which they either wouldn't ordinarily have access or one with which they would very likely be unable to transact.

The Merchant Success Team at Sezzle is one of the most vibrant and exciting groups within the entire company.

Customers can find merchants that use Sezzle either by discovering Sezzle during checkout on a retailer's site or by finding a retailer on the Sezzle merchant directory. Our directory is increasingly becoming a virtual shopping mall, with curated content from coveted retail brands spanning fashion, nutritional supplements, beauty, fitness, and home goods.

During the course of 2019, the number of Active Merchants using Sezzle grew 349%, surpassing the symbolically significant 10,000 mark in the fourth quarter. Interestingly, our US headquarters is located only

The Merchant Success Team at Sezzle is one of the most vibrant and exciting groups within the entire company.

MEET ANNA MEYER, VICE PRESIDENT OF MERCHANT SALES

The sales team at Sezzle likes to roll up their sleeves and really understand what makes our larger retail clients tick. What really energizes us is seeing how the transaction and sales volume steadily increases once our new clients have been onboarded onto the Sezzle Platform. Like any sales team, we get a rush from closing a sale and getting a new merchant under contract – but it's nothing compared to the satisfaction we get from seeing their business really take off once they have been using Sezzle's solution for a short while.

BODEGA

Sezzle has been an absolutely essential piece of the puzzle for our business. I love the idea that Sezzle gives our shoppers the power to pay on their terms. Financial freedom is top of mind for our customers. With Sezzle, we saw explosive conversion rates off the bat. Bottom line: we love Sezzle and so do our customers. Easy as that.

a few miles from the Mall of America, the largest shopping mall in the country, which features roughly 500 different stores and commercial establishments. Sezzle now has twenty times as many merchants on its curated shopping platform as the largest shopping mall in the United States.

In December of 2019, Sezzle announced a new $100 million debt funding facility, which will further enhance the company's ability to pay retail merchants ahead of the installment payments made by End-customers. This new facility gave our company added financial backing to ensure we could fund robust merchant sales in the year ahead.

In June of 2019, we announced our first international expansion and began offering our product to customers in Canada. We have since opened our Canadian headquarters in Toronto and have brought on seasoned sales professionals to lead our effort in developing the market.

Our approach to securing new merchants is a three-pronged strategy. Every day, we have scores of new merchants, generally SMBs, that proactively reach out to us, going through our application and screening process, seeking to join our platform. In addition to these inbound merchants, we have a sales team that targets a robust cross-section of mid-sized retailers who are interested in adopting a 'buy now, pay later' solution for checkout. Finally, we have a dedicated team of engineers, product specialists, developers, and marketers that focus on developing bespoke solutions for large-scale retailers. As a result, our target mix is a combination of SMBs, midsize, and mass retailers.

In the year ahead, we look to broaden our mix of merchant partners, extend into new business verticals, expand and solidify the incumbent sectors already on our platform, and support the merchants already using Sezzle.

Although we believe that active merchant growth is an important leading indicator for merchant demand, we believe that the Underlying Merchants Sales (UMS) metric gives the marketplace a much more complete picture of merchant growth. Underlying Merchant Sales on the Sezzle platform in 2019 totaled $244.1 million, up from $31.1 million in 2018, a marked 685% year-over-year increase. This growth is an indication that merchant demand for our product is high, and speaks to not only the explosive growth ahead but the long-term sustainability of our business model.

A STEADFAST COMMITMENT TO CORPORATE GOVERNANCE

Excellence in corporate governance is paramount to the long-term sustainability of Sezzle.

We have been pleased with the contributions of our board members who, throughout 2019, provided a wealth of strategic guidance, frameworks for risk mitigation, and critical inputs on proposed partnerships and other strategic growth initiatives. Our board has been exceedingly accessible to the CEO and other members of the executive leadership team.

Specifically, the board has been committed to ensuring that we are proactive in our efforts to engage with regulators, lawmakers, and other institutions that might directly or indirectly influence the future of our payments space, both in the US and Canada.

We believe wholeheartedly in engaging regulators and educating them about our products and the competitive space in which we do business. We are adamant that our commitment to transparency, the safeguards that we have built into our product to protect consumers, and our vigorous anti-fraud and anti-money-laundering practices—all coupled with our consumer-friendly product mix—places Sezzle in a positive light vis-à-vis regulators who are accustomed to dealing with a panoply of bad actors and their abusive credit schemes.

We have proactively engaged with regulators in the past, and we will continue to do so in the future. In October 2019, we secured an audience with the US Consumer Financial Protection Bureau in Washington, DC, to deliver an executive overview of our payments sector and the role Sezzle is playing in fulfilling its mission of financially empowering the next generation. It was a productive meeting that exemplifies the benefits of proactive, direct engagement with regulators and oversight bodies. This meeting laid the track for ongoing, open dialogue with regulators throughout the US and Canada on the federal, state and provincial, and local levels.

In late 2019 we suffered a temporary setback when the State of California's Department of Business Oversight notified us of their intent to deny our lending license application. The situation, although quickly rectified and resolved, was an example of a misstep that we must prevent going forward. We plan to address this by expanding our proactive outreach from a federal level down to the state and provincial level. This plan will take some work, but we realize that we are trailblazers in this industry and that regulators need to understand who we are and what we do—particularly the consumer-friendly nature of our business.

ERIN AND ABBY MOFFITT
SHAREHOLDERS

We were early investors in Sezzle. We could see from the outset that this was a company that was going to change the world and disrupt a credit system that unnecessarily penalized young adults—just as they are beginning their careers. As shareholders, we are deeply committed to the empowering mission of the company, and we look forward to seeing many new milestones achieved in the year ahead.

THE SEZZLE APPROACH TO STAKEHOLDER ENGAGEMENT AND SUSTAINABILITY

We've addressed the importance of valuing and supporting our employees, servicing our End-customers, investing resources and time in the communities in which our business operates, supporting our robust and growing portfolio of merchants, and taking a proactive approach to engaging with regulators. What we haven't yet addressed is our final group of stakeholders—our shareholders.

Addressing our shareholders last is not a reflection of their relative importance—quite the contrary. Instead, we firmly believe that delivering shareholder value is, in many respects, a function of supporting all the other stakeholders.

By ensuring that our stakeholders are duly vested in our company's success throughout the year, we are building a bridge to a bright and sustainable tomorrow.

We believe we have the right product for the right audience at the right time. The environment in which Sezzle is operating is favorable at both the macroeconomic and microeconomic levels. Our talented team of professionals has the ability and resources to execute our business plan and mitigate risk, enabling our platform to take full advantage of the so-called "network effect," which creates a symbiotic, increasingly positively correlated relationship between merchants and consumers.

As our platform expands, we will have to diligently manage the inevitable interest that this growth will generate from regulators, competing interests, and other entities, some of which will inevitably not have our best interests at heart. But with each transaction, each new customer, and each new merchant, we are laying the foundation for long-term sustainable growth and shareholder value.

We look forward to the year ahead.

Operating & Financial Review

Operating and Financial Performance

Sezzle delivered a strong performance in 2019, as reflected in key operating and performance metrics. While driving significant growth, Sezzle completed its initial public offering, drove Net Transaction Margin from negative to positive, secured a $100 million debt facility, and expanded its operations into Canada. 2019 was indeed a banner year.

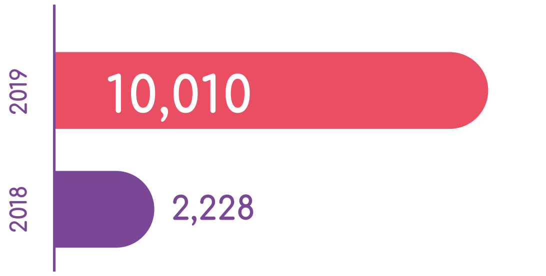
SUMMARY OF KEY OPERATING METRICS

The Company's key operating metrics continue to show signs of rapid growth during the financial year as a result of the continued success of onboarding and retaining Active Merchants and Active Customers.

A summary of the key operating metric results as of and for the year ended is shown below:

As of the year ended December 31		2019	2018
Active Merchants[1]	Up 349%	10,010	2,228
Active Customers[1]	Up 489%	914,886	155,257
For the year ended December 31 (US$000s)			
Underlying Merchant Sales (UMS)	Up 685%	$ 244,126	$ 31,081
Merchant Fees	Up 775%	$ 12,969	$ 1,482
Net Transaction Margin (NTM)[2] (% of UMS)	Up 1.3pp	0.3%	(1.0%)
Net Transaction Losses (NTL)[2] (% of UMS)	Up 0.8pp	(1.5%)	(2.3%)

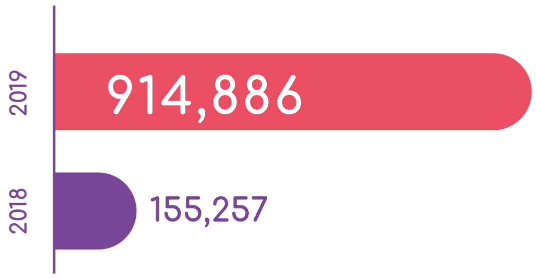
ACTIVE MERCHANTS



349%

Increased by 349% to 10,010 compared to the prior year.

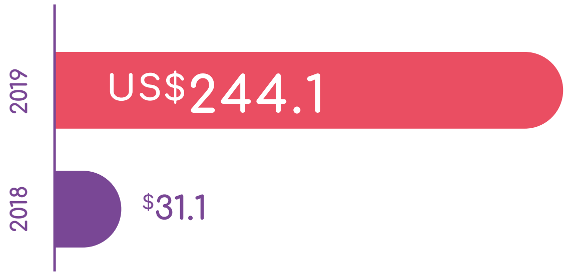
ACTIVE CUSTOMERS



489%

Increased by 489% to 914,886 compared to the prior year. Additionally, repeat usage, calculated as the percentage of cumulative orders made by returning End-customers to date relative to total cumulative orders to date was 83.7% as of December 31, 2019, compared to 69.7% as of the prior comparative period.

UNDERLYING MERCHANT SALES ($000,000s)



685%

Increased by 685% to over $244 million in 2019, compared to $31 million in the prior year.

1 Active Merchants and Active Customers are defined as those who have transacted with Sezzle in the past 12 months.

2 Net Transaction Margin and Net Transaction Losses are non-U.S. GAAP financial metrics.

NET TRANSACTION MARGIN

Net Transaction Margin is expressed as a percentage and is calculated by Sezzle as:

(a) Total Sezzle Income earned divided by Underlying Merchant Sales, expressed as a percentage;

(b) Less the cost of End-customer communications and the total fees paid by Sezzle to process transactions, divided by Underlying Merchant Sales, expressed as a percentage;

(c) Less Transaction Funding Financing Costs, divided by Underlying Merchant Sales, expressed as a percentage;

(d) Less Net Transaction Loss, divided by Underlying Merchant Sales, expressed as a percentage.

Sezzle has continued to see improvements in its Net Transaction Margin, resulting in a positive margin in 2019. The increase was driven primarily by efficiencies in Sezzle Income and gains in Net Transaction Losses. Summarized below, Net Transaction Margin for the years ended December 31 are as follows:

	FOR THE YEARS ENDED					
	2019			2018		
Net Transaction Margin (NTM)		**US$000s**	**% of UMS**		**US$000s**	**% of UMS**
Underlying Merchant Sales (UMS)	$	244,126	–	$	31,081	–
Sezzle income		13,375	5.5%		1,415	4.6%
Cost of income		(7,660)	(3.1%)		(915)	(2.9%)
Net Transaction Loss		(3,551)	(1.5%)		(724)	(2.3%)
Transaction funding financing costs		(1,328)	(0.5%)		(93)	(0.3%)
Net Transaction Margin	**$**	**836**	**0.3%**	**$**	**(317)**	**(1.0%)**

Net Transaction Loss is calculated as the expected provision and actual losses against notes receivable and reschedule fee losses to be incurred (less End-customer fees collected). The improvement of 0.8pp of UMS from the prior year was primarily due to higher collections of notes receivable, and End-customer failed payment fees.

	FOR THE YEARS ENDED					
	2019			2018		
Net Transaction Loss (NTL)		**US$000s**	**% of UMS**		**US$000s**	**% of UMS**
Provision for uncollectible accounts	$	(6,236)	(2.6%)	$	(940)	(3.0%)
End-customer other income		2,685	1.1%		217	0.7%
Net Transaction Loss	**$**	**(3,551)**	**(1.5%)**	**$**	**(724)**	**(2.3%)**

FINANCIAL REVIEW

A summary of Sezzle's financial results for the years ended December 31 are as follows:

US$000s			**2019**		**2018**
Total income	Up 884%	$	16,060	$	1,632
Cost of income	Up 737%		7,660		915
Provision for uncollectible accounts	Up 563%		6,236		941
Net loss after tax	Up 296%		(16,596)		(4,194)

The results of the Company are reported in US dollars under accounting principles generally accepted in the United States of America (U.S. GAAP). This report also contains certain non-U.S. GAAP financial information including EBITDA, EBIT, Gross Profit, Gross Margin, Net Transaction Margin, and Net Transaction Loss, as defined in the applicable sections below:

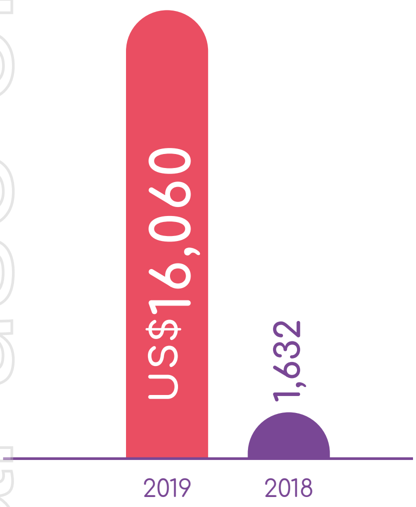
- EBITDA is earnings before interest, taxes, depreciation, and amortization;
- EBIT is earnings before interest and taxes;
- Gross profit is calculated as Total income less Cost of income; and
- Gross margin is gross profit divided by Total income, expressed as a percentage.

Note, the amounts included in this section were rounded to the nearest $1,000 (unless otherwise stated). Any discrepancies between totals and the sums of components contained in this report are due to rounding.

The financial results of the Company for the years ended December 31 are presented below:

	FOR THE YEARS ENDED		
US$000s	**2019**	**2018**	**Change**
Sezzle income	$ 13,375	$ 1,415	$ 11,960
End-customer other income	2,685	217	2,468
Total income	**16,060**	**1,632**	**14,428**
Cost of income	(7,660)	(915)	(6,745)
Gross profit	**8,400**	**717**	**7,683**
Gross margin %	*52.3%*	*43.9%*	*8.4pp*
Other income (expense)	133	(37)	170
Provision for uncollectible accounts	(6,236)	(940)	(5,295)
Other operating expenses	(12,962)	(3,712)	(9,250)
EBITDA	**(10,665)**	**(3,973)**	**(6,692)**
Depreciation and amortization	(261)	(117)	(144)
EBIT	**(10,926)**	**(4,090)**	**(6,836)**
Net interest expense	(1,460)	(96)	(1,364)
Interest expense on beneficial conversion feature	(4,198)	–	(4,198)
Fair value adjustment on future equity obligations	–	(7)	7
Loss before tax	**(16,584)**	**(4,194)**	**(12,390)**
Income tax expense	(12)	–	(12)
Net loss after tax	**$ (16,596)**	**$ (4,194)**	**$ (12,402)**

TOTAL INCOME (US$000S)



Sezzle income totaled $13.4 million for the year ended December 31, 2019, compared to $1.4 million for the year ended December 31, 2018—an increase of 845%.

As a percentage of UMS, Sezzle income was 5.5% for the year ended December 31, 2019, compared to 4.6% in the prior year. The Company has seen a similar improvement in Merchant fees as a percentage of UMS, with ratios of 5.3% and 4.8% for the years ended 2019 and 2018, respectively.

Merchant fees and End-customer reschedule fees, less financing origination costs, collectively comprise Sezzle income and are initially recorded as a deduction from notes receivable in the consolidated balance sheets. Deferred fees and expenses are recognized in the consolidated statements of operations over the average duration of the underlying notes receivable. Together, total End-customer reschedule fees and note origination costs were less than $0.4 million, or 3% of total Sezzle income recognized in 2019.

End-customer other income was $2.7 million for the year ended December 31, 2019, compared to $0.2 million for the year ended December 31, 2018. End-customer other income is comprised of failed payment fees and makes up 16.7% of Total Income for the year ended December 31, 2019, compared to 13.3% in the prior year.

COST OF INCOME

Cost of income primarily comprises payment processing costs paid to third-party payment processors. Payment processing costs as a percentage of UMS was 2.4% for the year ended December 31, 2019, compared to 2.5% in the prior year. In April 2019, Sezzle changed card processing service providers to lower processing costs. Savings realized by the change in card processing service providers were partially offset by the increase in card utilization over direct debit from End-customer bank account payment methods.

Additionally, short-term referral fee costs stipulated by agreements with partners and merchants of Sezzle increased by 0.3% as a percentage of UMS year over year, driving the total cost of income to increase by 0.2% of UMS in 2019 compared to 2018.

RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS

Sezzle's End-customer notes receivables before expected losses increased to $28.8 million as of December 31, 2019, compared to $5.6 million as of December 31, 2018—an increase of 414% as a result of the rise in UMS and Active Customers. Sezzle's notes receivable have a weighted average days outstanding of 34 days.

Provisions for uncollectible accounts on the Notes receivable are calculated on an expected loss basis. The total provision for uncollectible accounts was $6.2 million or 2.6% of UMS for 2019, compared to $0.9 million or 3.0% of UMS in the prior year. Improved loss rates are a result of an increase in repeat usage among End-customers and continuous improvements in Sezzle's proprietary underwriting processes.

OTHER OPERATING EXPENSES

Other operating expenses for the years ended December 31 were made up of the following:

	2019			2018		
Other operating expenses		**US$000s**	**% of Total**		**US$000s**	**% of Total**
Compensation related expenses	$	8,372	64.6%	$	2,251	60.6%
Third-party service provider costs		1,284	9.9%		615	16.6%
Marketing, advertising, and tradeshows		855	6.6%		365	9.8%
Professional services		1,025	7.9%		114	3.1%
Rent		404	3.1%		92	2.5%
Other		1,023	7.9%		275	7.4%
Other operating expenses	**$**	**12,962**		**$**	**3,712**	

- Compensation related expenses increased to $8.4 million in the current year from $2.3 million in the prior year as a result of increased employee and contractor headcount. Total employees and contractors were 133 as of December 31, 2019, compared to 63 as of December 31, 2018.
- Third-party service provider costs consist primarily of costs incurred to obtain data used in underwriting End-customers and fraud prevention. These costs increased to $1.3 million in 2019 compared to $0.6 million in the prior year, driven by growth in Active Customers.
- Marketing, advertising, and tradeshow costs were $0.9 million, compared to $0.4 million in 2018, as a result of the Company's efforts in expanding its presence with both merchants and customers, as well as the investment in updating the Sezzle brand.
- Professional services include legal, financial audit, and tax compliance related costs. Costs of $1.0 million for 2019 were driven by regulatory fees incurred associated with obtaining a lending license in California, completion of its financial statement audit for the 2017 and 2018 reporting years, as well as other ongoing professional services costs associated with the Company now being listed on the ASX.
- Rent expense was $0.4 million in 2019. The Company's corporate headquarters moved to a larger facility to accommodate its expanded employee headcount. Sezzle also opened its Canadian office in 2019 alongside the rollout of its product in Canada.

INTEREST EXPENSE

Net interest expense totaled $1.5 million for the year ended December 31, 2019, primarily driven by a full year of utilizing the Company's revolving credit facilities. Refer to Note 13 within the Company's Consolidated Financial Statements for additional commentary on its line of credit.

Interest expense on the beneficial conversion feature was incurred on the Company's Initial Public Offering date and resulted from the conversion of $5.8 million of notes issued in the first half of 2019. Refer to Note 16 of the Consolidated Financial Statements for further information.

FINANCIAL POSITION ACTIVITY

Sezzle's total assets increased to $64.5 million as of December 31, 2019, from $12.5 million as of December 31, 2018. This growth of $52 million is primarily from increases in both cash and cash equivalents and notes receivables.

Merchant accounts payable increased to $13.3 million as of December 31, 2019, compared to $2.3 million as of December 31, 2018. This increase is related to the growth in Underlying Merchant Sales and Active Merchants during 2019. Total liabilities increased to $37.2 million as of December 31, 2019, compared to $7.2 million in the prior year.

Stockholders' equity and mezzanine equity increased to $27.3 million as of December 31, 2019, from $5.3 million as of December 31, 2018, primarily as a result of the proceeds from the Company's Initial Public Offering (IPO).

CAPITAL MANAGEMENT

To help manage the increase in UMS, Sezzle signed an agreement with the Syndicate to increase its debt facility to $100 million in November 2019. As of December 31, 2019, Sezzle had drawn $21.5 million from its revolving line of credit.

Sezzle also issued convertible notes totaling $5.8 million during the first half of 2019. Proceeds from this offering were utilized to fund the Company's operations as well as facilitate lending activity with Active Customers and Active Merchants.

On July 24, 2019, Sezzle restructured its capital in anticipation of listing on the Australian Securities Exchange (ASX). The Series A preferred stock and convertible notes outstanding were converted into common stock. The Company issued 70,446,291 common stock upon conversion of 70,446,291 Series A preferred stock, converted on a 1:1 basis, per the terms of the preferred stock agreements. Additionally, the Company issued 12,064,155 shares of common stock following the conversion of the $5.8 million of convertible notes, plus accrued interest, at a conversion price of $0.49 per common share.

On July 29, 2019 the Company officially listed on the ASX. The initial public offer of 35,714,286 CHESS Depository Interests (CDIs) over shares of common stock (one CDI equates to one share of common stock) were offered at a price of A$1.22 (approximately $0.84) per CDI to raise about A$43.6 million (approximately $30 million).

Refer to the Consolidated Balance Sheets on page 57 in this Annual Report for further information.

CASHFLOW ACTIVITY

Sezzle used $19.9 million of net cash outflows for its operating activities for the year ended December 31, 2019, compared with $6.2 million in 2018. Increased cash usage versus the prior year was driven by higher operating losses and increased net working capital. The increase in net working capital was primarily due to an increase in receivables from End-customers of$28.0 million, offset by an increase in accounts payable of $11.0 million and accrued liabilities of $1.2 million.

Significant non-cash items include expenses recorded to establish the provision for uncollectible accounts on notes and other receivables from End-customers ($7.4 million in 2019, compared to $1.0 million in 2018), expenses recorded for the Company's equity-based compensation for employees ($1.0 million in 2019 and $0.03 million in 2018), and a $4.3 million loss on the Company's convertible notes resulting from the conversion of the notes to common stock.

Net cash used in investing activities increased to $0.5 million during 2019, compared to $0.4 million in the prior year. This increase is primarily from the capitalization of internal-use software used in product development.

Net cash flow received from financing activities increased to $50 million in 2019 from $12.8 million in 2018. Net proceeds from convertible notes totaled $5.8 million. The Company borrowed $24.2 million from its revolving line of credit and repaid $7.0 million on the line. Additionally, the Company received proceeds from its IPO of $30.3 million, before issuance costs of $2.8 million.

Refer to the Consolidated Statements of Cash Flows on page 60 in this Annual Report for further information.

Business and Strategy

When co-founders Charlie Youakim, Paul Paradis, and Killian Brackey came together in 2016 to start Sezzle, the vision they articulated was one founded on the guiding principle of empowering everyday consumers by making their finances more manageable in increasingly uncertain times.

As Sezzle has grown, transforming itself into a publicly-traded multinational corporation with over 10,000 merchant partners, over 130 employees and contractors, and almost 1 million Active Customers, keeping this underlying mission of being an agent of social good front and center continues to be the organization's number one priority.

As the executive leadership team and the board develop plans for continued growth and future expansion this year and beyond, these essential underlying principles remain paramount, and our 2020 enterprise strategy is a reflection and continuance of these fundamental underlying precepts. Bottom line: no matter our size and reach, our core principles remain immutable—our future strategic goals and objectives will always serve to further these values.

10,000+
merchant partners

Over
130
employees

Rapidly approaching
1M
Active Customers

BRAND

For our merchant partners and End-customers, our market research indicates that Sezzle is widely viewed as the 'good guy' in a sector of the economy that has historically been led by a bevy of companies labeled as bad actors, predatory lenders, and other less than scrupulous descriptors. We strive every day to live up to our reputation as being a company that does right by our customers and partners and strives for social good.

As we unfurl to the broader marketplace our new branding, which reflects the meaningful way in which we engage with our core customer base and the dynamism of our company's offerings, we believe that the year ahead will be replete with opportunities to accelerate our engagement with consumers and create new pivot points to connect with an ever-growing community of interested merchant partners.

We are fundamentally changing how consumers think about payments and their financial futures. With our mission to financially empower the next generation, we are committed to building a company that reinforces this mission. A big part of that is how we communicate with our consumers, brands, and partners. We launched a rebranding process to ensure that we are establishing our commitment to the future by providing a platform of inclusivity, transparency, access, and a promise to always have our customers' back.

We have always lived this mantra internally and want to ensure that we are presenting that externally as well. Our rebranding efforts are much more than a change in our logo, our fonts, or our colors, they are a commitment to our stakeholders and will have a meaningful impact on our design, tone of voice, and all ways we communicate. We are forward-thinking at Sezzle. While we have historically been product-led, we recognize the importance of design and branding as we move into a market where retailers are looking at payments as a marketing engine. As importantly, our rebranding will be reflected in our product design, user experience, and all aspects of our business as we position ourselves for future growth.

UNLOCKING THE POWER OF OUR END-CUSTOMERS

One of the results of a vibrant network of merchants and End-customers is that the sheer size of our consumer base becomes an increasingly powerful asset for us as we continue to harness the collective purchasing power of Sezzle consumers. A significant pillar of our 2020 business strategy revolves around looking for ways to unlock the value of the power of our End-customers, accelerating the network effect, which devolves geometrically increased value to the Sezzle platform and opens up a variety of potential additional revenue streams to the company.

RISHI MUKHERJEE, DEVELOPER

As one of the first developers hired by Sezzle, it's been an amazing experience being able to create this technology platform from the ground up. The architecture of our tech is built not just to meet the demands of today, but for the anticipated growth of tomorrow. The development team takes tremendous pride in the product we put out, which we feel can stand toe-to-toe with any other platform in the payments space.

LEVERAGING OUR TECHNOLOGY

The engineering and data science teams at Sezzle have created a powerful digital engine, optimized for delivering a secure, streamlined, and transparent consumer-facing experience built upon a robust set of risk mitigation algorithms. To this end, in 2020, Sezzle will be examining, on a case-by-case basis, opportunities to deploy this technology for adjacent uses across the fintech sector.
Our business development team will continue to engage in conversations with select large-scale merchants and partners that are interested in tapping into our technology to facilitate their strategic payments-related initiatives. As we examine and evaluate these opportunities, we will be focused not on short-term economic return, but ensuring that any expansion of services, products, or meaningful deployments of resources and human capital dovetail with our long-term strategic objectives.

2020: BUILDING OUT ADDITIONAL RESOURCES

In the year ahead, we will be developing both in-house and via key strategic external partnerships, a portfolio of tools, content offerings, and other ancillary services that will further support our consumers and merchants. We believe that financial education and financial access are critical for our end-users to ensure continued success as our product grows and expands. To that end, we will deploy significant human resources towards thinking critically about the ideal complementary offerings that we can bring to the marketplace to stand alongside our core product. We believe that our platform should be not only an endpoint where customers come to do their shopping and make payments, but a starting point for their budgeting, financial planning, and general personal financial education.

PATRICK CHAN, A FORMER SALES EXECUTIVE IN DIGITAL PAYMENTS, JOINED SEZZLE TO LEAD ITS CANADA TEAM

“Despite being in the market for only half a year, the pick-up from Canadian merchants has been overwhelming. In the year ahead, we look forward to developing a national sales force with vertical domain experts. It's a really exciting time to be at Sezzle in Canada right now, and we look forward to making the most of the opportunity.

INTERNATIONAL EXPANSION

In 2019, we announced Sezzle's expansion into Canada, its first market outside of the United States. Since then, we opened an office in Toronto and hired a country general manager, Patrick Chan, a former digital payments executive with deep experience in the Canadian market.

Our plans for Canada in 2020 will be centered around further developing the Sezzle brand, developing business with new merchant retailers, and solidifying a number of key strategic partnerships that will further cement our role as an agent of good and positive change in the Canadian retail ecosystem.

In addition to continuing to support our investment in Canada, our company is actively exploring opportunities across Asia, Europe, and Latin America, where we believe Sezzle can play an important role in supporting consumers and offering a valuable alternative payment solution to local in-country merchants. To be clear, our approach in these marketplaces will be deliberate, and any investments made will be incremental and in the form of limited liability subsidiaries. Our thinking around expansion into strategic new markets is one of enabling seed investments to take hold, adding water and nutrients as the investment proves itself viable and worthy of additional resources. We will not be making large-scale initiatives in untested markets, but we see a number of opportunities to move into territories during the course of 2020.

Key Risks and Challenges

In the course of conducting our business operations, we are exposed to a variety of risks, some of which are inherent in our industry and others of which are more specific to our businesses.

This discussion addresses the most significant factors, of which we are currently aware, that could affect our businesses, results of operations, and financial condition. However, other factors not discussed below or elsewhere in this Annual Report could also adversely affect our businesses, results of operations, and financial condition. Therefore, the risk factors below should not be considered a complete list of potential risks that we may face.

LOSS OF KEY RETAIL MERCHANT CLIENT RELATIONSHIPS

The Company depends on continued relationships with its current significant retail merchant clients. There can be no guarantee that these relationships will continue or, if they do continue, that these relationships will continue to be successful. The Company's contracts with retail merchant clients can be terminated for convenience on relatively short notice by either party, and so the Company does not have long term contracted income.

There is a risk that the Company may lose retail merchant clients for a variety of reasons, including a failure to meet key contractual or commercial requirements, or retail merchant clients shifting to in-house solutions or competitor service providers.

Although the Company does not currently depend on any single retail merchant client for more than approximately 3% of Sezzle Income, the Company's business is still at a relatively early stage, and retail merchant client income is not as diversified as it might be for a more mature business. The loss of even a small number of the Company's key retail merchant clients may materially and adversely impact the Company's income and profitability, and increase marketing expenses to sign up new retail merchant clients to replace those lost. Depending on the reason for the loss of a key retail merchant client, it may also negatively impact the Company's reputation with other retail merchant clients and with End-customers.

There is also a risk that new agreements formed with retail merchant clients in the future may be less favorable to the Company, including pricing and other key terms, due to unanticipated changes in the market in which the Company operates.

EXPOSURE TO END-CUSTOMER BAD DEBTS

The Company's profitability depends on its ability to put in place and optimize its systems and processes to make predominantly accurate, real-time decisions in connection with the End-customer transaction approval process. End-customer non-payment is a significant component of the Company's expenses at present, and the Company is currently exposed to End-customer bad debts as a regular part of its operations. However, excessive exposure to bad debts through customers failing to meet their repayments to the Company will materially and adversely impact the Company's profitability.

The Company also has an exposure, although much more limited, to the potential insolvency of a retail merchant client to which the Company has advanced funds. Exposure occurs in the period between the advance of funds to a retail merchant client for a customer's purchase of goods and the retail merchant shipping the goods to the End-customer (at which point the Company is entitled to payment from the End-customer). However, this period of risk is typically only a few days.

ADDITIONAL REQUIREMENTS FOR CAPITAL

As the Company's current business grows and new lines of business are developed, the Company will require additional funding to support the provision of installment plans to End-customers and working capital. Although the Directors believe that the Company will have sufficient working capital and capacity with the funds raised during the initial public offering and under its existing credit facilities to carry out its short-term business objectives, there can be no assurance that such goals can be met without further financing or, if new funding is necessary, that financing can be obtained on favorable terms or at all. Further, if additional funds are raised by issuing equity securities, this may result in dilution for some or all of the Shareholders.

COMPETITORS AND NEW MARKET ENTRANTS

The Company considers it has a competitive advantage in being one of the first to provide an interest-free 'buy now, pay later' service to the US and Canadian online retail market. However, there is always a risk of new entrants in the market, which may disrupt the Company's business and market share. Existing competitors, as well as new competitors entering the industry, may engage in aggressive customer acquisition campaigns, develop superior technology offerings or consolidate with other entities to deliver enhanced scale benefits. Such competitive pressures may materially erode the Company's market share and income, and may materially and adversely impact the Company's income and profitability.

A general increase in competition may also require the Company to increase marketing expenditure or offer lower fees to Retail Merchant Clients, which would decrease profitability even if the Company's market share does not decrease.

FAILURES OR DISRUPTIONS OF TECHNOLOGY SYSTEMS

The Company depends on the constant real-time performance, reliability, and availability of its technology system and third-party technology and communication networks (including the systems of third-party e-commerce networks). There is a risk that these systems may fail to perform as expected or be adversely impacted by several factors, including those outside the control of the Company, such as damage, equipment faults, power failure, fire, natural disasters, computer viruses and external malicious interventions such as hacking, cyber-attacks or denial-of-service attacks.

Events of that nature may cause part or all of the Company's technology system or the communication networks used by the Company to become unavailable. The Company's operational processes and contingency plans may not adequately address every potential event and may disrupt transaction flow and adversely impact the Company's financial performance and reputation.

There is a risk that repeated failures to keep the Company's technology available may result in a decline in End-customer and retail merchant client numbers or retail merchant clients terminating their contracts with the Company. Such failures may materially and adversely impact the Company's financial performance, including a reduction in income from completed transactions and an increase in the costs associated with servicing End-customers through the disruption, as well as negatively impacting the Company's reputation.

RELIANCE ON THE ACCURACY OF THIRD-PARTY DATA PROVIDED TO THE COMPANY

The Company purchases data from third parties that are critical to the Company's assessment of the creditworthiness of End-customers before they are either approved or denied funding for their purchase from a retail merchant client. The Company is reliant on these third parties to ensure that the data they provide is accurate. Inaccurate data could cause the Company not to approve transactions that otherwise would have been approved or vice versa, resulting in loss of income or higher income with a higher incidence of bad debts for the Company.

EMPLOYEE RECRUITMENT RISK AND RETENTION

The Company's ability to effectively execute its growth strategy depends upon the performance and expertise of its people. The Company relies on experienced managerial and highly qualified technical staff to develop and operate its technology and to direct operations staff to manage the operational, sales, compliance, and other functions of its business.

There is a risk that the Company may not be able to attract and retain key staff or be able to find competent replacements promptly. The loss of staff, or any delay in their replacement, could impact the Company's ability to operate its business and achieve its growth strategies, including through the development of new systems and technology.

There is a risk that the Company may not be able to recruit suitably qualified and talented staff in a time frame that meets the growth objectives of the Company. Staffing delays may result in delays in the integration of new systems, development of technology, and general business expansion, which may adversely impact the Company's income and profitability.

There is also a risk that the Company will be unable to retain existing staff or recruit new staff in terms of retention that are as attractive to the Company as past agreements. Low retention would adversely impact employment costs and profitability.

COMPLIANCE WITH LAWS, REGULATIONS, INDUSTRY COMPLIANCE STANDARDS

The Company is subject to a range of legal and industry compliance requirements that are continually changing. Such requirements include privacy laws, consumer protection laws, and contractual conditions. There has recently been an increased focus and scrutiny by regulators in various jurisdictions concerning 'buy now, pay later' arrangements.

There is potential that the Company may become subject to additional legal or regulatory requirements if its business, operations, strategy, or geographic reach expand in the future or if the regulations change with respect to the jurisdictions in which it operates. These changes may potentially include credit licensing, financial services licensing, or other licensing or regulatory requirements or similar limitations on the conduct of business.

There is a risk that additional or revisions to legal, regulatory, and industry compliance standards may make it uneconomic for the Company to continue to operate, or to expand under its strategy. These additions or revisions may materially and adversely impact the Company's income and profitability, including by preventing its business from reaching a sufficient scale.

There is also a risk that if the Company fails to comply with these laws, regulations, and industry compliance standards, this may result in significantly increased compliance costs, cessation of certain business activities, or the ability to conduct business, litigation or regulatory inquiry or investigation and significant reputational damage.

Sezzle's business is subject to investigation by regulators, enforcement agencies, and offices of state attorneys general, which could lead to enforcement actions, fines, and penalties, and qualifications to conduct business or the assertion of private claims and lawsuits against Sezzle. The US Federal Trade Commission and the US Consumer Financial Protection Bureau have the authority to investigate consumer complaints against Sezzle, to conduct inquiries at their insistence, and to recommend enforcement actions and seek monetary penalties.

The Company is continually reviewing the regulatory landscape that governs each of the jurisdictions in which it operates. The Company will work with the regulators in each domain and, if required, will apply for the requisite licenses to ensure that it is compliant with the laws of that state.

DATA SECURITY BREACHES

Through the ordinary course of business, the Company collects a wide range of confidential information. Cyber-attacks may compromise or breach the technology platform used by the Company to protect sensitive data. The Company's business could be materially impacted by security breaches of the data and information of Retail Merchant Clients and End-customers data and information, either by unauthorized access, theft, destruction, loss of information, or misappropriation or release of confidential data.

There is also a risk that the measures the Company takes may not be sufficient to detect or prevent unauthorized access to, or disclosure of, such confidential personal or proprietary information, and any of these events may cause significant disruption to the business and operations. This risk may also expose the Company to reputational damage, legal claims, termination of the Company's contracts with retail merchant clients, and regulatory scrutiny and fines, any of which could materially adversely impact the financial performance and prospects of the Company.

Also, any security or data issues experienced by other software companies globally could adversely impact customers' trust in providing access to their data generally, which could adversely affect the Company's ability to provide its services generally.

TECHNOLOGICAL CHANGES

The Company participates in a competitive environment. IT systems are continuing to develop and are subject to rapid change, while business practices continue to evolve. The Company's success will, in part, depend on its ability to offer services and systems that remain current with the continuing changes in technology, evolving industry standards, and changing consumer preferences. There is a risk that the Company will not be successful in addressing these developments promptly, or that expenses will be higher than expected. Additionally, there is a risk that new products or technologies (or alternative systems) developed by third parties will supersede the Company's technology, and this may materially and adversely impact the Company's income and profitability.

REPUTATION RISK

Maintaining the strength of the Company's reputation is vital to retaining and increasing its End-customer base and its retail merchant client base, maintaining its relationships with partner companies and other service providers, and successfully implementing the Company's business strategy. There is a risk that unforeseen issues or events may adversely impact the Company's reputation, and this may negatively impact the future growth and profitability of the Company.

The Company's reputation is also closely linked to the timely and accurate provision of services to End-customers. There is a risk that the Company's actions and the actions of the Company's suppliers and merchants may adversely impact the Company's reputation. Any factors that diminish the Company's reputation could result in customers, merchants, or other parties ceasing to do business with the Company. Such reputation risk would impede the Company's ability to successfully provide its goods and services, negatively affect its future business strategy, and materially and adversely impact its financial position and performance.

EXPOSURE TO ADVERSE MACROECONOMIC CONDITIONS

The Company's business depends on End-customers transacting with retail merchant clients, which in turn can be affected by changes in general economic conditions. For example, the retail sector is affected by such macroeconomic 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 and retailers' focus and investment in outsourcing solutions. These macroeconomic factors may subsequently impact the Company's ability to generate income. Additionally, in weaker economic environments, consumers may have less disposable income to spend, and as a result, may be less likely to purchase products by utilizing the Company's services, and bad debts might increase.

Directors' Report

Directors' Report

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 YEAR ENDED DECEMBER 31, 2019.

DIRECTORS

The following individuals were Directors of Sezzle for the full year ended December 31, 2019:

- Charlie Youakim, co-founder, Executive Chairman, and Chief Executive Officer
- Paul Paradis, co-founder, Executive Director, and Chief Revenue Officer

Additionally, the following individuals were named to the Board of Directors during the reporting period:

- Paul Lahiff, Independent Non-Executive Director – appointed May 7, 2019;
- Kathleen Pierce-Gilmore, Independent Non-Executive Director – appointed April 15, 2019; and
- Paul Purcell, Independent Non-Executive Director – appointed April 15, 2019

INFORMATION ON DIRECTORS

CHARLIE YOUAKIM

CHAIRMAN, EXECUTIVE CHAIRMAN, AND CHIEF EXECUTIVE OFFICER

Charlie is a co-founder, Executive Chairman, and Chief Executive Officer of Sezzle.

Charlie is a serial technology entrepreneur with nearly ten years of experience in growing fintech companies from inception to large-scale businesses. Charlie began his career as an engineer and software developer. After successfully advancing in his early career, he returned to business school where he was able to focus on expanding his knowledge of finance, marketing, and business strategy.

In 2010, after completing business school, Charlie founded his first payments company, Passport. Passport became a leader in software and payments for the transportation industry. At Passport, Charlie led the construction of the original technology and led the company as it disrupted the industry through the introduction of white label systems and payments wallets. Passport is the technology behind enterprise transportation installations like ParkChicago, ParkBoston, and the GreenP in Toronto.

Charlie co-founded Sezzle in 2016 and also planned much of the business' technology architecture.

Charlie has a degree in Mechanical Engineering from the University of Minnesota and an MBA from the Carlson School of Management at the University of Minnesota.

Other current Directorships: Charlie does not currently hold any other directorships.

Interests in Shares: 88,359,809

Interests in Options: 500,000

PAUL PARADIS

EXECUTIVE DIRECTOR AND CHIEF REVENUE OFFICER

Paul is a co-founder, Executive Director, and Chief Revenue Officer at Sezzle.

Paul has extensive experience in sales and marketing. He began his career in sales with the Minnesota Timberwolves. He left the Timberwolves to attain his MBA from the Carlson School of Management at the University of Minnesota, where he focused on marketing and strategy. After graduating from the Carlson School of Management, Paul spent six years leading sales and marketing at Dashe & Thomson and the Abreon Group, which are boutique management consultancies focused on IT transformation adoption.

Paul left the Abreon Group in 2016 when he co-founded Sezzle. At Sezzle, Paul oversees sales, marketing, partnerships, and merchant development.

Paul has a BA in Political Science from Davidson College and an MBA from the University of Minnesota.

Other current Directorships: Paul does not currently hold any other directorships.

Interests in Shares: 10,000,000[1]

Interests in Options: 500,000

PAUL LAHIFF

INDEPENDENT NON-EXECUTIVE DIRECTOR

Paul Lahiff was previously Chief Executive Officer of Mortgage Choice and prior to this, Chief Executive Officer of Permanent Trustee and Heritage Bank. He also held senior management roles for Westpac Banking Corporation in Sydney and London.

He previously held Board roles with Sunsuper, Thorn Group, New Payments Platform Australia and Cancer Council NSW.

Paul holds a BSC degree from the University of Sydney, is a graduate of the Australian Institute of Company Directors.

Other current Directorships: Paul is a Non-Executive Director of AUB Holdings, 86400 and NESS Superannuation.

Interests in Shares: 81,967

Interests in Options: 250,000

1. Paul Paradis holds 10,000,000 shares. As of the date of this Annual Report, 8,625,000 shares have fully vested with the remaining shares subject to vesting conditions as follows: 1,375,000 shares will vest in monthly installments over the next 22 months.

KATHLEEN PIERCE-GILMORE

INDEPENDENT NON-EXECUTIVE DIRECTOR

Kathleen has been a payments and fintech executive for 20+ years across firms, including American Express, Capital One, PayPal, and most recently startup companies Raise Marketplace and Flexa Technologies. She has held leadership positions from leading Strategy to COO, President, and CEO roles. In addition to her deep expertise in customer experience, consumer lending, product development, and P&L management, she has also led businesses on the merchant side of the payments ecosystem. She is currently CEO of a boutique executive search firm focused primarily in the fintech space.

Kathleen graduated with a BA from the Integrated Sciences Program at Northwestern University and has recently completed the Non-Executive Director Diploma program through the Financial Times.

Other current Directorships: Tala

Interests in Shares: 0

Interests in Options: 350,000

PAUL PURCELL

INDEPENDENT NON-EXECUTIVE DIRECTOR

Paul Purcell has invested in financial services companies (public and private markets) for nearly 20 years. He retains a specific specialization in emerging financial innovation as well as non-bank financial services. He has been the Chief Investment Officer of Jupiter Management since January 1, 2019 and prior to assuming that position led the sourcing and origination of investments at Continental Investors. Paul is a frequent panelist at industry conferences and has published several articles on the trends and developments in the emerging commerce and financial services market places.

Before joining Continental Investors, Paul was a co-founder of Continental Advisors, a manager of two sector-based hedge funds. He was also Manager of Internet Marketing at the Chicago Board Options Exchange (CBOE), a department he helped found.

Paul is a graduate of the University of San Diego where he is a member of the Board of Trustees.

Other current Directorships: Paul currently serves on the Boards of Listo!, Veritec Solutions, Drizly, Winestyr, Intuition LLC, CarHop, and What's Next Media.

Interests in Shares: 0

Interests in RSAs: 0[2]

2. In accordance with Paul Purcell's director appointment agreement, 350,000 restricted stock awards were issued to Continental Investment Partners on March 29, 2019 which comprises compensation for Paul Purcell's services as director.

INFORMATION ON CORPORATE SECRETARY

Justin Clyne is a company director and company secretary for public-listed and unlisted companies. He has significant experience and knowledge in international law, the Corporations Act, the ASX Listing Rules, and corporate regulatory requirements. Mr. Clyne was admitted as a solicitor of the Supreme Court of New South Wales and High Court of Australia in 1996 before gaining admission as a barrister in 1998. He had 15 years of experience in the legal profession acting for the country's largest corporations, initially in the areas of corporate and commercial law before dedicating himself full time to the provision of corporate advisory and company secretarial services. Mr. Clyne holds a Master in Laws in International Law for the University of New South Wales, and is qualified as a Chartered Company Secretary.

MEETINGS OF DIRECTORS

During the financial year ended December 31, 2019, Sezzle held five meetings of the Board of Directors and one meeting of the noted committees, all of which were standard meetings.

	FULL BOARD		AUDIT AND RISK COMMITTEE		REMUNERATION AND NOMINATION COMMITTEE	
	Held	Attended	Held	Attended	Held	Attended
Charlie Youakim	5	5	1	1[1]	1	1[1]
Paul Paradis	5	5	1	0[1]	1	0[1]
Paul Purcell	5	5	1	1	1	1
Kathleen Pierce-Gilmore	5	5	1	1	1	1
Paul Lahiff	5	5	1	1	1	1

1. Not a committee member.

As of the date of this report, Sezzle has an Audit and Risk Committee and a Remuneration and Nomination Committee of the Board of Directors. All committee members are non-executive independent directors. The members of each committee are as follows:

Audit and Risk Committee	Remuneration and Nomination Committee
Paul Lahiff (Chair)	Paul Lahiff (Chair)
Kathleen Pierce-Gilmore	Kathleen Pierce-Gilmore
Paul Purcell	Paul Purcell

PRINCIPAL ACTIVITIES

The principal activities of Sezzle are to provide a technology-driven payment platform that facilitates fast, secure, and easy payments between End-customers and retailers through its short-term, interest-free installment plans that delivers to End-customers both a budgeting and financing value proposition.

FINANCIAL RESULT

The Company reported a net loss of $16.6 million after tax for the year ended December 31, 2019, compared to a loss of $4.2 million in the previous year ended.

OPERATING AND FINANCIAL REVIEW

Refer to pages 28-34 for the Company's operating and financial review, which covers discussion of the Company's:

- financial and operating performance;
- business strategies and initiatives; and
- key risks and challenges.

FUTURE DEVELOPMENTS

Any other information on likely developments in the operations of the Company and its prospective financial future have not been included in this report because the Directors believe it to be commercial-in-confidence and as a result likely to result in unreasonable prejudice to the Company.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

No material events have occurred subsequent to the end of the year at the time of issuing this report.

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 on common stock were declared or issued during the year ended December 31, 2019.

On June 23, 2019, the Board of Directors declared and issued a 15% stock dividend resulting in the issue of 909,451 Series A preferred stock to the existing holders of Series A-1 through A-5 preferred stock, valued at $0.8 million. All preferred stock was converted into common stock on July 24, 2019 in conjunction with the Company listing on the Australian Securities Exchange (ASX).

STOCK-BASED PAYMENT PLANS

A summary of the Company's stock-based payment plans is disclosed within Note 17 of the Consolidated Financial Statements.

SUSTAINABILITY

The Company understands and supports the increased role environmental, social, and economic factors play into the sustainability of its businesses and its stakeholders. The Company also understands that there are stakeholders that expect additional information on the Company's sustainability initiatives. To this extent, the Company discusses its sustainability initiatives and stakeholder approach in pages 11-27 of this report.

The consolidated entity is not subject to any significant environmental regulation under the laws of the United States.

CORPORATE GOVERNANCE

The Company's Corporate Governance Statement for the year ended December 31, 2019 can be found at https://www.sezzle.com/investors

REMUNERATION REPORT

The Directors of the Company present the Remuneration Report for Non-Executive Directors, Executive Directors, and other Key Management Personnel (**KMP**), prepared pursuant to the *Corporations Act 2001* and the *Corporations Regulations 2001.*

The Remuneration Report is set out under the following main headings:

- Remuneration Philosophy;
- Performance;
- Details of Remuneration;
- Service Agreements;
- Share-Based Compensation;
- Short Term Incentive Program;
- Long Term Incentive Program; and
- Other Information.

REMUNERATION PHILOSOPHY

The performance of Sezzle depends upon our ability to attract and retain KMP. To prosper, we must attract, motivate, and retain these highly skilled individuals. KMP are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company, directly or indirectly, including all Directors.

To that end, our remuneration framework is designed to deliver:

- Competitive rewards to attract high caliber executives;
- Clear alignment of remuneration with strategic objectives;
- Focus on creating sustainable value for all of our stakeholders;
- Merit-based remuneration across a diverse workforce; and
- Ensure total remuneration is competitive by market standards.

The Remuneration and Nomination Committee (**RNC**) is responsible for determining and reviewing compensation arrangements for the KMP. The RNC assesses the appropriateness of the nature and amount of remuneration for KMP on a periodic basis by reference to relevant market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality board and executive team.

The Board of the Company believes the remuneration framework to be appropriate and effective in attracting and retaining the best KMP to operate and manage the Company.

The KMP remuneration framework is designed to support the Company's reward philosophies and to underpin the Company's growth strategy. The framework comprises the following components:

- Base salary-appropriate to the position and experience and is competitive in the market; and
- Long term incentive-aligned to delivery of long term performance and delivery of returns to stakeholders.

The Board will continue to review KMP packages annually by reference to the Company's performance, KMP performance, and comparable information from industry sectors and other listed companies in similar industries.

PERFORMANCE

As shown in the table below, the Company has achieved exceptional growth over the last three years.

Year ended December 31	2019	2018	2017
Underlying Merchant Sales (US$)	$ 244,125,995	$ 31,081,277	$ 855,381
Active Customers	914,886	155,257	4,542
Active Merchants	10,010	2,228	100
Total Income (US$)	$ 16,060,356	$ 1,632,060	$ 29,366

DETAILS OF REMUNERATION

AMOUNTS OF REMUNERATION

Details of the remuneration of KMP of the Company are set out in the following tables. The KMP of the Company during the reporting period consisted of the following:

- Charlie Youakim, Executive Chairman and Chief Executive Officer;
- Paul Paradis, Executive Director and Chief Revenue Officer;
- Kathleen Pierce-Gilmore, Non-Executive Director;
- Paul Purcell, Non-Executive Director;
- Paul Lahiff, Non-Executive Director; and
- Karen Hartje, Chief Financial Officer.

	SHORT TERM		LONG TERM	
	Cash Salary and Fees US$	Non-Monetary	Annual Leave US$	Options/ RSAs
Non-Executive Directors				
P. Purcell	Nil	Nil	Nil	350,000 RSAs[1]
K. Pierce Gilmore	Nil	Nil	Nil	350,000 Options[2]
P. Lahiff	$ 17,796	Nil	Nil	250,000 Options[3]
Executive Directors				
C. Youakim	$ 205,593	Nil	$ 6,635	500,000 Options[4]
P. Paradis	$ 168,878	Nil	$ 5,577	500,000 Options[4]
Executive Management				
K. Hartje	$ 203,096	Nil	$ 6,577	500,000 Options[4]

1. In accordance with Paul Purcell's director appointment agreement, 350,000 RSAs were issued to Continental Investment Partners on March 29, 2019 which comprises compensation for Paul Purcell's services as Director.
2. Kathleen Pierce-Gilmore received 350,000 options on March 29, 2019 with an exercise price of $0.05, which comprises her compensation for her services. 1/36th of the options granted to Kathleen Pierce-Gilmore vest each month after the grant of the options, provided that she remains a Director of the Company as of the applicable date. The options expire ten years from March 29, 2019.
3. 1/36th of the options granted to Paul Lahiff vest each month after the grant of the options, provided that he remains a Director of the Company as of the applicable date and are exercisable at the exercise price per option of $0.84. The options expire ten years from July 27, 2019.
4. 1/48th of the options for these KMPs vest each month after the grant of the options, provided the individual remains an employee of the Company as at the applicable date. These options expire ten years from July 27, 2019.

SERVICE AGREEMENTS

Remuneration and other terms of employment for KMP are formalized in service agreements. Details of these agreements are as follows:

Name:	**Charlie Youakim**
Title:	Executive Chairman and CEO
Agreement commenced:	June 21, 2019
Term of Agreement:	Annual salary of $225,000. Charlie's agreement may be terminated: (i) at any time upon mutual written agreement of the parties; (ii) by the Company immediately and without prior notice for cause; (iii) immediately upon Charlie's death or disability; (iv) by the Company other than for cause with advance written notice of at least 12 months; or (v) by Charlie, other than due to Charlie's death or disability, with advance written notice of at least 12 months.

Name:	**Paul Paradis**
Title:	Executive Director and Chief Revenue Officer
Agreement commenced:	June 21, 2019
Term of Agreement:	Annual salary of $200,000. Paul's agreement may be terminated: (i) at any time upon mutual written agreement of the parties; (ii) by the Company immediately and without prior notice for cause; (iii) immediately upon Paul's death or disability; (iv) by the Company other than for cause with advance written notice of at least 12 months; or (v) by Paul, other than due to Paul's death or disability, with advance written notice of at least 12 months.

Name:	**Karen Hartje**
Title:	CFO
Agreement commenced:	June 21, 2019
Term of Agreement:	Annual salary of $225,000. The Company may terminate immediately for cause. Either party may terminate with 6 months' written notice without cause.

Name:	**Paul Purcell**
Title:	Non-Executive Director
Agreement commenced:	March 28, 2019
Term of Agreement:	The Agreement shall continue until terminated by either party for any reason upon five (5) days prior written notice without further obligation or liability other than as otherwise set forth in the Agreement. 350,000 RSAs were issued to Continental Investment Partners on March 29, 2019 which comprises compensation for Paul Purcell's services as Director.

Name:	**Kathleen Pierce-Gilmore**
Title:	Non-Executive Director
Agreement commenced:	March 26, 2019
Term of Agreement:	The Agreement shall continue until terminated by either party for any reason upon five (5) days prior written notice without further obligation or liability other than as otherwise set forth in the Agreement. Kathleen received 350,00 options exercisable at $0.05 each and expiring March 29, 2029 vesting monthly over 3 years engagement as a director but automatically vesting in full upon certain circumstances including a sale, merger or consolidation.

Name:	**Paul Lahiff**
Title:	Non-Executive Director
Agreement commenced:	May 7, 2019
Term of Agreement:	The Agreement shall continue until terminated in accordance with the provisions of the Agreement including in the event that Paul is not re-elected as a director of the Company by shareholders or becomes disqualified from acting as a director. Paul receives a total of A$60,000 per annum comprising A$50,000 as a director and an additional A$10,000 in board subcommittee fees.

KMP have no entitlement to termination payments in the event of removal for misconduct.

SHARE-BASED COMPENSATION

ISSUE OF SHARES

Other than as set out in this report, there were no shares issued to KMP as part of compensation during the year ended December 31, 2019.

Directors' Report

Continued

SHARES/CDIS HELD BY KMP:

The number of ordinary shares in the Company during the year ended December 31, 2019 reporting period held by each of the Company's key management personnel, including their related parties, is set out below:

Member of KMP	Balance at Start of Year	Granted as Remuneration	Received on Exercise	Other Changes	Held at end of Reporting Period
Charlie Youakim	40,000,000	0	0	48,359,809[1]	88,359,809
Paul Paradis	10,000,000[2]	0	0	0	10,000,000
Kathleen Pierce-Gilmore	0	0	0	0	0
Paul Purcell	0	0	0	0	0
Paul Lahiff	0	0	0	81,967	81,967
Karen Hartje	0	0	0	0	0

Note:

1. Charlie Youakim held 47,680,590 preferred shares at the beginning of 2019. An additional 679,219 shares were granted to him pursuant to the preferred dividend that was declared by the Board of Directors on June 23, 2019. These 48,359,809 preferred shares converted to common shares of the Company on July 24, 2019 in conjunction with the Company's listing on the ASX.
2. Paul Paradis holds 10,000,000 shares. As of the date of this Annual Report, 8,625,000 shares have fully vested with the remaining shares subject to vesting conditions as follows: 1,375,000 shares will vest in monthly installments over the next 22 months.

OPTIONS HELD BY KMP:

The number of options in the Company during the year ended December 31, 2019 reporting period held by each of the Company's KMP, including their related parties, is set out below:

Member of KMP	Balance at Start of Year	Granted as Remuneration	Other Changes	Held at end of Reporting Period
Charlie Youakim	–	500,000	–	500,000[1]
Paul Paradis	–	500,000	–	500,000[1]
Kathleen Pierce-Gilmore	–	350,000	–	350,000[2]
Paul Purcell	–	0	–	0[3]
Paul Lahiff	–	250,000	–	250,000[4]
Karen Hartje	1,735,000	500,000	–	2,235,000[1]

Notes:

1. 1/48th of the options for these KMPs vest each month after the grant of the options, provided the individual remains an employee of the Company as at the applicable date. These options expire 10 years from the date of grant.
2. Kathleen Pierce-Gilmore received 350,000 options on March 29, 2019 with an exercise price of $0.05, which comprises her compensation for her services. 1/36th of the options granted to Kathleen Pierce-Gilmore vest each month after the grant of the options, provided that she remains a Director of the Company as at the applicable date. The options expire 10 years from March 29, 2019.
3. In accordance with Paul Purcell's director appointment agreement, 350,000 restricted stock awards were issued to Continental Investment Partners on March 29, 2019 which comprises compensation for Paul Purcell's services as Director.
4. 1/36th of the options granted to Paul Lahiff vest each month after the grant of the options, provided that he remains a Director of the Company as of the applicable date and are exercisable at the exercise price per option of $0.84. The options expire 10 years from July 27, 2019.

SHORT TERM INCENTIVE PROGRAM

Other than cash salaries, the Company did not have other short term incentives for 2019.

LONG TERM INCENTIVE PROGRAM

Under the terms of the 2016 Employee Stock Option Plan and 2019 Employee Incentive Plan (collectively the "Plans") approved by the board, the Company may offer options and other incentives to eligible employees. Incentives are subject to vesting conditions consisting of time-based hurdles.

OTHER INFORMATION—LOANS TO KMP

There were no loans made during the year to any Key Management Personnel.

THIS CONCLUDES THE REMUNERATION REPORT.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

INSURANCE OF DIRECTORS AND OFFICERS

During the year, Sezzle paid a premium for a Directors and Officers Liability Insurance Policy (D&O Insurance). This policy covers Directors and Officers of the Company and the consolidated entity. In accordance with normal commercial practices under the terms of the insurance agreements, the disclosure of the nature of the liabilities insured against and the amount of the premiums are prohibited by the policy.

INDEMNIFICATION OF AUDITORS

To the extent of the law, Sezzle has agreed to indemnify its auditors, Baker Tilly Virchow Krause, LLP as part of the terms of its audit engagement agreement. No payment has been made in relation to this agreement during or after the financial year.

NON-AUDIT SERVICES

Sezzle may choose to employ its auditor for services additional to their statutory audit duties. Pursuant to the Sarbanes-Oxley Act of 2002, Sezzle and its affiliates do not employ its auditors on assignments related to:

- Bookkeeping;
- Financial information systems design and implementation;
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions or human resources;
- Broker-dealer, investment adviser, or investment banking services; and
- Legal services and expert services unrelated to the audit.

In all other instances, the Audit and Risk Committee considers whether any service may impair the firm's independence in fact or appearance and approves the service before engagement.

Financial Statements

Sezzle Inc. and Subsidiaries
Consolidated Financial Statements
December 31, 2019 and 2018

Contents

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Board of Directors
Sezzle, Inc. and Subsidiaries
Minneapolis, MN

We have audited the accompanying consolidated financial statements of Sezzle, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated Financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sezzle, Inc. and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows and substantially all of the disclosures for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
February 27, 2020

Consolidated Balance Sheets

As of December 31, 2019 and 2018

		2019 US$		2018 US$
Assets				
Current Assets				
Cash and cash equivalents	$	34,965,069	$	6,519,400
Restricted cash		1,639,549		545,454
Notes receivable, net		25,189,135		4,930,616
Other receivables, net		315,502		32,780
Prepaid expenses and other current assets		882,939		128,167
Total current assets		**62,992,194**		**12,156,417**
Non-Current Assets				
Internally developed intangible assets, net		480,098		260,732
Property and equipment, net		134,400		75,676
Right-of-use assets		867,272		–
Restricted cash		20,000		20,000
Other assets		49,171		22,509
Total Assets	**$**	**64,543,135**	**$**	**12,535,334**
Liabilities, Mezzanine Equity, and Stockholders' Equity (Deficit)				
Current Liabilities				
Merchant accounts payable	$	13,284,544	$	2,276,880
Lease liability (current)		389,257		–
Accrued liabilities		1,670,261		457,488
Other payables		267,934		96,252
Total current liabilities		**15,611,996**		**2,830,620**
Long Term Liabilities				
Long term debt		250,000		250,000
Lease liability (non-current)		500,131		–
Line of credit, net of unamortized debt issuance costs of US$590,827 and US$66,172, respectively		20,859,173		4,133,828
Total Liabilities		**37,221,300**		**7,214,448**
Mezzanine Equity				
Preferred stock, 6% noncumulative, US$0.00001 par value; 200,000,000 shares authorized; 0 and 69,536,840 shares issued and outstanding, respectively		–		11,678,429
Stockholders' Equity (Deficit)				
Common stock, US$0.00001 par value; 300,000,000 shares authorized; 178,931,312 and 59,416,666 shares issued and outstanding, respectively		1,789		594
Additional paid-in capital		51,138,207		99,857
Accumulated deficit		(23,818,161)		(6,457,994)
Total Stockholders' Equity (Deficit)		**27,321,835**		**(6,357,543)**
Total Liabilities, Mezzanine Equity, and Stockholders' Equity (Deficit)	**$**	**64,543,135**	**$**	**12,535,334**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations

For the years ended December 31, 2019 and 2018

		2019 US$		2018 US$
Income				
Sezzle income	$	13,375,254	$	1,415,077
End-customer other income		2,685,102		216,983
Total income		**16,060,356**		**1,632,060**
Cost of Income		**7,660,276**		**915,266**
Gross profit		**8,400,080**		**716,794**
Operating Expenses				
Selling, general, and administrative expenses		13,223,605		3,829,013
Provision for uncollectible accounts		6,235,820		940,498
Total operating expenses		**19,459,425**		**4,769,511**
Operating Loss		**(11,059,345)**		**(4,052,717)**
Other Income (Expense)				
Interest expense		(1,459,782)		(96,496)
Interest expense on beneficial conversion feature		(4,197,674)		–
Other income and expense		132,554		(36,850)
Fair value adjustment on future equity obligations		–		(7,490)
Loss before taxes		(16,584,247)		(4,193,553)
Income tax expense		11,981		–
Net Loss	**$**	**(16,596,228)**	**$**	**(4,193,553)**
Earnings per share:				
Basic and diluted loss per common share	$	(0.15)	$	(0.07)
Basic and diluted weighted average shares outstanding		111,576,824		59,416,666

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Stockholders' Equity (Deficit)

For the years ended December 31, 2019 and 2018

	Common Stock					
	Shares	Amount US$	Additional Paid-in Capital US$	Stock Subscriptions US$	Accumulated Deficit US$	Total US$
Balance at January 1, 2018	**59,416,666**	**$ 594**	**$ 69,180**	**$ (57,708)**	**$ (2,264,441)**	**$ (2,252,375)**
Equity based compensation	–	–	30,677	–	–	30,677
Collection of stock subscription	–	–	–	57,708		57,708
Net loss	–	–	–	–	(4,193,553)	(4,193,553)
Balance at December 31, 2018	**59,416,666**	**594**	**99,857**	**–**	**(6,457,994)**	**(6,357,543)**
Equity based compensation	–	–	825,302	–	–	825,302
Stock option exercises	882,914	8	37,099	–	–	37,107
Restricted stock issuances and vesting of awards	407,000	4	126,673	–	–	126,677
Preferred stock dividend	–	–	–	–	(763,939)	(763,939)
Conversion of preferred stock to common stock	70,446,291	705	12,441,662	–	–	12,442,367
Proceeds of initial public offering, net of issuance costs	35,714,286	357	27,509,331	–	–	27,509,688
Conversion of notes to common stock	12,064,155	121	10,098,283	–	–	10,098,404
Net loss	–	–	–	–	(16,596,228)	(16,596,228)
Balance at December 31, 2019	**178,931,312**	**$ 1,789**	**$ 51,138,207**	**$ –**	**$ (23,818,161)**	**$ 27,321,835**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

Operating Activities:	2019 US$	2018 US$
Net loss	$ (16,596,228)	$ (4,193,553)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	245,496	96,845
Provision for uncollectible accounts	6,235,820	940,498
Provision for other uncollectible receivables	1,188,201	102,540
Equity based compensation and restricted stock vested	951,979	30,677
Amortization of debt issuance costs	72,379	4,727
Fair value adjustment on future equity obligations	–	7,490
Impairment losses on long-lived assets	15,623	19,827
Loss and accrued interest on conversion of convertible notes	4,306,622	–
Changes in operating assets and liabilities:		
Notes receivable	(26,494,339)	(5,658,137)
Other receivables	(1,470,923)	(133,100)
Prepaid expenses and other assets	(788,428)	(121,195)
Merchant accounts payable	11,007,664	2,168,981
Other payables	171,682	79,575
Operating leases	22,116	–
Accrued liabilities	1,212,773	421,492
Net cash used for operating activities	(19,919,563)	(6,233,333)
Investing Activities:		
Purchase of property and equipment	(125,885)	(101,529)
Internally developed intangible asset additions	(406,333)	(267,375)
Net cash used for investing activities	(532,218)	(368,904)
Financing Activities:		
Proceeds from issuance of long term debt	5,812,500	250,000
Costs incurred for convertible note issuance	(25,000)	–
Proceeds from line of credit	24,200,000	4,600,000
Payments to line of credit	(6,950,000)	(400,000)
Proceeds from employee stock option exercises	37,107	–
Payments of debt issuance costs	(592,750)	(70,899)
Proceeds from initial public offering	30,286,785	–
Costs incurred for initial public offering	(2,777,097)	–
Proceeds of future equity obligations	–	30,000
Proceeds from issuance of preferred stock, net of costs	–	8,368,386
Collection of stock subscription	–	57,708
Net cash provided by financing activities	**49,991,545**	**12,835,195**
Net increase (decrease) in cash, cash equivalents, and restricted cash	29,539,764	6,232,958
Cash, cash equivalents, and restricted cash:		
Beginning of Year	7,084,854	851,896
End of Year	**$ 36,624,618**	**$ 7,084,854**
Non-cash investing and financing activities:		
Conversion of notes to common stock	$ 10,098,404	$ –
Conversion of preferred stock to common stock	12,442,367	–
Issuance of preferred stock dividend	763,939	–
Non-cash lease liabilities arising from obtaining right-of-use assets	872,210	–
Issuance of preferred stock from future equity obligations	–	3,310,043
Supplementary disclosures:		
Cash paid for interest	1,153,730	34,634

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

NOTE 1 – PRINCIPAL BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

PRINCIPAL BUSINESS ACTIVITY

Sezzle Inc. (the "Company" or "Sezzle") is a technology-enabled payments company based in the United States with operations in both the United States and Canada. The Company is a Delaware corporation formed on January 4, 2016. The Company offers its payment solution at online stores and a select number of brick-and-mortar retail locations, connecting consumers with merchants via a proprietary payments solution that instantly extends credit at point-of-sale, allowing consumers to purchase and receive the items that they need now while paying over time in interest-free installments.

Merchants turn to Sezzle to increase sales by tapping into Sezzle's existing user base, increase conversion rates, increase spend per transaction, increase purchase frequency, and reduce return rates, all without bearing any credit risk. Sezzle is a high-growth, networked platform that benefits from a symbiotic and mutually beneficial relationship between merchants and consumers.

The Company's core product allows consumers to make online purchases and effectively split the payment for the purchase over four equal, interest-free payments over six weeks. The End-customer makes the first payment at the time of checkout and makes the subsequent payments every two weeks after that. The purchase price, less processing fees, is paid to retail merchant clients by Sezzle in advance of the collection of the purchase price installments by Sezzle from the End-customer.

The Company is headquartered in Minneapolis, Minnesota.

BASIS OF PRESENTATION

The consolidated financial statements are prepared and presented under accounting principles generally accepted in the United States of America (U.S. GAAP). All amounts listed are reported in US dollars. It is the Company's policy to consolidate the accounts of subsidiaries for which it has a controlling financial interest. The accompanying consolidated financial statements include all the accounts and activity of Sezzle Inc., Sezzle Funding SPE, LLC, Sezzle Canada Corp., Sezzle Holdings I, Inc., and Sezzle Holdings II, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

CONCENTRATIONS OF CREDIT RISK

CASH AND CASH EQUIVALENTS

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains its cash in depository accounts that, at times, may exceed Federal Deposit Insurance Corporation (FDIC) limits. As of the date of this report, the Company has experienced no losses on such accounts.

FOREIGN CURRENCY RISK

The Company is exposed to foreign currency fluctuations on its consolidated balance sheets and consolidated statements of operations. Currency risk is managed through limits set on total foreign deposits on hand which are routinely monitored by the Company.

NOTES RECEIVABLE

The Company has a policy for establishing credit lines for individual End-customers that helps mitigate credit risk. The allowance for uncollectible accounts is adequate for covering any potential losses on outstanding notes receivable.

CASH AND CASH EQUIVALENTS

The Company had cash and cash equivalents of $34,965,069 and $6,519,400 as of December 31, 2019 and 2018, respectively. The Company considers all money market funds and other highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Company accepts debit and credit cards from End-customers as a method to settle its receivables, and these transactions are generally transmitted through third parties. The payments due from third parties for debit and credit card transactions are generally settled within three days. The Company considers all bank, debit and credit card transactions initiated before year end to be cash and cash equivalents.

NOTE 1 – PRINCIPAL BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

RESTRICTED CASH

The Company is required to maintain cash balances in a bank account in accordance with the lending agreement executed on November 29, 2019 between Sezzle Funding SPE, LLC, Sezzle Inc, and their third party line of credit providers Bastion Consumer Funding II, LLC, Atalaya Asset Income Fund IV LP, and Hudson Cove Credit Opportunity Master Fund, LP ("the Syndicate"). The bank account is the property of Sezzle Funding SPE, LLC, but access to End-customer payments is controlled by the Syndicate. On a regular basis cash received from End-customers is deposited to the bank account and subsequently made available to Sezzle through daily settlement reporting with the Syndicate. Cash deposits to the bank account represent cash received from End-customers not yet made available to Sezzle, as well as a minimum balance consisting of the sum of $20,000, accrued interest on the drawn credit facility, and accrued management fees charged by the Syndicate. Additionally, the Company is required to maintain minimum balances in a deposit account with a third-party service provider to fund notes receivable. The amount on deposit within the current restricted bank accounts totaled $1,639,549 and $545,454 as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the Company was required to maintain a $20,000 cash balance held in a reserve account to cover Automated Clearing House (ACH) transactions. The cash balance within this account is classified as non-current restricted cash on the consolidated balance sheets.

RECEIVABLES AND CREDIT POLICY

Notes receivable represent amounts from uncollateralized End-customer receivables generated from the purchase of online merchandise. The original terms of the notes for the Company's core product are to be paid back in equal installments every two weeks over a six-week period. The Company does not charge interest on the notes to End-customers. Sezzle defers direct note origination costs over the average life of the notes receivable using the effective interest rate method. These net deferred fees and costs are recorded within notes receivable, net on the consolidated balance sheets. The Company evaluates the collectability of the balances based on historical experience and the specific circumstances of individual notes, with an allowance for uncollectible accounts being provided as necessary. All notes receivable from End-customers, as well as related fees, outstanding greater than 90 days past due are charged off as uncollectible. It is the Company's practice to continue collection efforts after the charge-off date. Refer to Note 4 for further information about receivable balances, allowances, and charge-off amounts.

DEBT ISSUANCE COSTS

Costs incurred in connection with originating debt have been capitalized and are classified in the consolidated balance sheets as a reduction of the line of credit balance to which those costs relate. Debt issuance costs are amortized over the life of the underlying debt obligation utilizing the straight-line method, which approximates the effective interest method. Amortization of debt issuance costs is included within interest expense in the consolidated statements of operations. For the years ended December 31, 2019 and 2018, amortization of debt issuance costs totaled $72,379 and $4,727, respectively. Total cumulative cash payments to date for debt issuance costs were $663,649 and $70,899 for the years ended December 31, 2019 and 2018, respectively.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is provided using either the straight-line or double-declining balance method, based on the useful lives of the assets:

	Years	Method
Computer equipment	3	Double-declining balance
Office equipment	5	Double-declining balance
Furniture and fixtures	7	Straight-line

Maintenance and repairs are expensed as incurred. Refer to Note 2 for further information.

INTERNALLY DEVELOPED INTANGIBLE ASSETS

The Company capitalizes costs incurred for web development and software developed for internal use. The costs capitalized primarily relate to direct labor costs for employees and contractors working directly on the development and implementation of the software. Projects are deemed eligible for capitalization once it is determined that the project is being designed or modified to meet internal business needs, the project is ready for its intended use, the total estimated costs to be capitalized exceed $500, and there are no plans to market, sell or lease the project.

Amortization is provided using the straight-line method, based on useful lives of the intangible assets as follows:

	Years	Method
Internal use software	3	Straight-line
Website development costs	3	Straight-line

Refer to Note 3 for further information.

RESEARCH AND DEVELOPMENT COSTS

Research expenditures that relate to the development of new processes, including internally developed software, are expensed as incurred. Such costs were approximately $517,000 and $394,000 for the years ended December 31, 2019 and 2018, respectively. Research expenditures are recorded within selling, general, and administrative expenses within the consolidated statements of operations.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the carrying value of long-lived assets, including property, equipment and internally developed intangible assets for impairment whenever events and circumstances indicate that the carrying value of the assets 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 property is used, and the effects of obsolescence, demand, competition, and other economic factors. Management has determined that $15,623 and $19,827 of impairment losses were incurred for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and December 31, 2018 the Company had not renewed or extended the initial determined life for any of its recognized internally developed intangible assets.

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, accrued liabilities, and equity based compensation 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 Company's deferred tax assets as of December 31, 2019 and 2018.

The Company evaluates its 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. As of December 31, 2019 and 2018, the unrecognized tax benefits accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

ADVERTISING COSTS

Advertising costs are expensed as incurred and consist of traditional marketing, digital marketing, sponsorships, and promotional product expenses. Such costs were $368,235 and $179,394 for the years ended December 31, 2019 and 2018, respectively.

NOTE 1 – PRINCIPAL BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

EQUITY-BASED COMPENSATION

The Company maintains stock compensation plans which provides the offering of incentive and 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. The Company estimates the fair value of each stock option on the measurement date using the Black-Scholes option valuation model which incorporates assumptions as to stock price volatility, the expected life of the options, risk-free interest rate and dividend yield. The Company issues new shares upon the exercise of stock options. Refer to Note 17 for further information around the Company's equity-based compensation plans.

ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. The Company's estimates and judgments are based on historical experience and various other assumptions that it believes are reasonable under the circumstances. The amount of assets and liabilities reported on the Company's consolidated balance sheets and the amounts of income and expenses reported for each of the periods presented are affected by estimates and assumptions, which are used for, but not limited to, determining the allowance for uncollectible accounts recorded against outstanding receivables, the useful life of property and equipment and internally developed intangible assets, determining impairment of property and equipment and internally developed intangible assets, valuation of equity based compensation, leases, and income taxes.

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). The accounting guidance includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure 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 $7,282,946 and $1,800,559 as of December 31, 2019 and 2018, respectively, are based on Level 1 inputs and are included within cash and cash equivalents on the consolidated balance sheets.

COST OF INCOME AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The primary costs classified in each major expense category are:

Cost of income:

- Payment processing costs
- End-customer communication expenses
- Merchant affiliate program fees
- International payment processing costs
- Partner revenue share fees

Selling, general, and administrative expenses:

- All compensation related costs for employees and contractors
- Third party service provider costs
- Depreciation and amortization
- Advertising costs
- Rent expense
- Legal and regulatory compliance costs

SEGMENTS

The Company's operations consist primarily of lending to End-customers located in the United States who purchase goods from its affiliated merchants. During the year ended December 31, 2019, the Company began operations in Canada. While a distinct geographic location, the operations in Canada are still in an early growth stage. Additionally, as of December 31, 2019, management has not found any significant difference in the economic performance of each operating segment. Therefore, management has concluded that the Company has one reportable segment on a consolidated basis.

FOREIGN CURRENCY EXCHANGE LOSSES

Sezzle works with international merchants creating exposure to gains and losses from foreign currency exchanges. Sezzle's income and cash can be affected by movements in the Canadian dollar. Sezzle has transactional currency exposures arising from merchant fees and payouts to Canadian merchant partners. Gains (losses) from foreign exchange rate fluctuations affecting Sezzle's net loss totaled $20,729 and ($38,859) for the years ended December 31, 2019 and 2018, respectively, and are recorded within other income and expenses on the consolidated statements of operations. The Company did not hold foreign currency prior to October 2018.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, "Leases," which requires all lessees to recognize a liability and a corresponding right-of-use asset for all long-term leases. The Company has adopted the new standard as of January 1, 2019 using the modified retrospective approach. Upon adopting this standard, the Company established a right of use asset of $345,607, lease liability of $355,567, and reduced its deferred rent liability by $9,960. The Company elected to apply the package of three practical expedients which most notably allowed the Company to carryforward the classifications of its existing leases. Refer to Note 5 for further discussion around lease implementation.

In June 2018, the FASB issued ASU No. 2018-07, "Improvements to Nonemployee Share-Based Payment Accounting" to include share-based payment transactions for acquiring goods and services from nonemployees. The Company adopted the new accounting pronouncement as of January 1, 2019. Implementation of the accounting standard did not result in adjustments to previously reported financial figures.

During August 2018, the FASB issued ASU No. 2018-13, "Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820, Fair Value Measurement. The amendments are based on the concepts in the FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, which the Board finalized on August 28, 2018. ASU No. 2018-13 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not believe that the adoption of ASU No. 2018-13 will have a material effect on its consolidated statements of operations, consolidated balance sheets, and statement of cash flows.

NOTE 1 – PRINCIPAL BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments" which requires reporting entities estimate credit losses expected to occur over the life of the asset. Expected losses will be recorded in current period earnings and recorded through an allowance for credit losses on the consolidated balance sheet. During November 2018, April 2019, May 2019, and November 2019, the FASB also issued ASU No. 2018-19, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses", ASU No. 2019-04, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses"; ASU No. 2019-05 "Targeted Transition Relief"; and ASU No. 2019-10, "Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates" and ASU No. 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses." ASU No. 2018-19 clarifies the effective date for nonpublic entities and that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASUs Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, ASU No. 2019-10 defers the effective date of and ASU No. 2019-11 amends ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company plans to adopt the standard beginning January 1, 2023 and is currently evaluating the impact of the standard on its consolidated statements of operations, consolidated balance sheets, and statements of cash flows.

NOTE 2 – PROPERTY AND EQUIPMENT

As of December 31, property and equipment, net consists of the following:

	2019 US$	**2018 US$**
Computer and office equipment	$ 225,186	$ 114,978
Furniture and fixtures	28,394	5,727
Property and equipment, gross	253,580	120,705
Less: accumulated depreciation	(119,180)	(45,029)
Property and equipment, net	$ 134,400	$ 75,676

Depreciation expense relating to property and equipment was $74,151 and $36,086 for the years ended December 31, 2019 and 2018, respectively.

NOTE 3 – INTERNALLY DEVELOPED INTANGIBLE ASSETS

As of December 31, internally developed intangible assets, net consists of the following:

	2019 US$	**2018 US$**
Internal use software	$ 662,653	$ 257,537
Web development costs	20,195	29,027
Work in process	13,672	46,370
Internally developed intangible assets, gross	696,520	332,934
Less: accumulated amortization	(216,422)	(72,202)
Internally developed intangible assets, net	**$ 480,098**	**$ 260,732**

Amortization of internally developed intangible assets was $171,344 and $60,759 for the years ended December 31, 2019 and 2018, respectively.

NOTE 4 – NOTES RECEIVABLE

As of December 31, Sezzle's notes receivable, related allowance for uncollectible accounts, and deferred net origination fees are recorded within the consolidated balance sheets as follows:

	2019 US$	2018 US$
Notes receivable, gross	$ 29,700,598	$ 5,719,723
Less: allowance for uncollectible accounts		
Balance at start of period	(645,332)	(45,783)
Provision	(6,235,820)	(940,498)
Charge-offs, net of recoveries	3,419,315	340,949
Total allowance for uncollectible accounts	**(3,461,837)**	**(645,332)**
Notes receivable, net of allowance	26,238,761	5,074,391
Deferred net origination fees on notes receivable	(1,049,626)	(143,775)
Balance at end of year	**$ 25,189,135**	**$ 4,930,616**

Sezzle maintains an allowance for uncollectible accounts at a level necessary to absorb estimated probable losses on principal receivables from End-customers. 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. Included in charge-offs, net of recoveries are recoveries totaling $170,231 and $41,396 for the years ended December 31, 2019 and 2018, respectively.

Sezzle uses its judgement to evaluate the allowance for uncollectible accounts based on existing economic conditions and historical performance of End-customer principal payments. The historical vintages are grouped into fortnightly populations for purposes of the allowance assessment, in line with the standard payment plan of an End-customer. The balances of historical cumulative charge-offs by vintage support the calculation for estimating the allowance for uncollectible accounts for vintages outstanding less than 90 days.

Deferred net origination fees are comprised of Sezzle income less direct note origination costs, are recognized over the duration of the note with the End-customer and are recorded within Sezzle income on the consolidated statements of operations.

Sezzle estimates the allowance for uncollectible accounts by segmenting End-customer accounts receivable by the number of days balances are delinquent. Balances that are at least one day past the initial due date are considered delinquent. Balances that are not delinquent are considered current. End-customer notes receivable are charged-off following the passage of 90 days without receiving a qualifying payment, upon notice of bankruptcy, or death. End-customers are allowed to reschedule a payment one time without incurring a reschedule fee and the principal of a rescheduled payment is not considered to be delinquent. If End-customers reschedule a payment more than once in the same order cycle they are subject to a reschedule fee. Alternatively, failed payment fees are applied to any missed payments for which an End-customer did not reschedule or pay within 48 hours of the original payment date. Any failed payment fees associated with a delinquent payment are considered to be the same number of days delinquent as the principal payment.

NOTE 4 – NOTES RECEIVABLE CONTINUED

The following table summarizes Sezzle's gross notes receivable and related allowance for uncollectible accounts as of December 31, 2019 and December 31, 2018:

	2019			2018		
	Gross Receivables US$	Allowance US$	Net Receivables US$	Gross Receivables US$	Allowance US$	Net Receivables US$
Current	$ 25,695,723	$ (1,014,888)	$ 24,680,835	$ 4,975,024	$ (101,054)	$ 4,873,970
Days past due:						
1-28	2,251,591	(923,396)	1,328,195	400,755	(215,592)	185,163
29-56	919,177	(719,910)	199,267	200,491	(188,339)	12,152
57-90	834,107	(803,643)	30,464	143,453	(140,347)	3,106
Total	**$ 29,700,598**	**$ (3,461,837)**	**$ 26,238,761**	**$ 5,719,723**	**$ (645,332)**	**$ 5,074,391**

Principal payments received after the 90 day charge-off period are recognized as recoveries in the allowance for uncollectible accounts in the period the payment is received.

NOTE 5 – LEASES

During the year of 2019, the Company entered into four new operating leases for corporate office space, three of which are located within the United States and one in Canada. Total lease expense incurred for the year ended December 31, 2019 and 2018 was $348,246 and $76,252, respectively, and is recorded within selling, general and administrative expenses on the consolidated statements of operations. Additionally, total cash paid for rent for the years ended December 31, 2019 and 2018 was $350,722 and $73,433, respectively.

Right-of-use assets and lease liabilities are recognized as of the commencement date based on the present value of the remaining lease payments over the lease term which include renewal periods the Company is reasonably certain to exercise.

As of December 31 the Company's operating leases are recorded on the consolidated balance sheets as follows:

Operating Leases	Classification	2019 US$
Assets	Right-of-use asset	$ 867,272
Total leased assets		**$ 867,272**
Liabilities		
Current	Lease liability (current)	$ 389,257
Non-current	Lease liability (non-current)	500,131
Total lease liabilities		**$ 889,388**

NOTE 5 – LEASES CONTINUED

The expected maturity of the Company's operating leases are as follows:

Maturity of Lease Liabilities		US$
2020	$	423,039
2021		376,457
2022		141,525
Less: interest		(51,633)
Present value of lease liabilities	**$**	**889,388**

The weighted average remaining term of the Company's operating leases is 2.4 years. The weighted average discount rate of the operating leases is 4.75%. As of December 31, 2019, Sezzle has not entered into any lease agreements that contain residual value guarantees or financial covenants. Sezzle has several immaterial lease agreements in which it has the right to terminate the contract by providing written notice in advance.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

MARKETING AND ADVERTISING

In September 2018, the Company entered into an agreement with a third party whereby Sezzle will pay for marketing and advertising costs. The agreement stipulates it will spend up to $250,000 over the four years following the date of the agreement.

The Company entered into similar agreements with third parties in 2019, committing up to $1,085,000 in marketing and advertising spend. The Company spent $530,000 of this amount during 2019, of which approximately $495,000 is recorded as a prepaid expense on the consolidated balance sheet as of December 31, 2019. Absent a termination of the noted agreements, the Company is committed to spend an additional $500,000 on an annual basis in future years.

Costs relating to these agreements totaled $34,760 and $50,000 for the years ended December 31, 2019 and 2018, respectively and are included within selling, general, and administrative expenses within the consolidated statements of operations.

NOTE 7 – INCOME TAXES

The income tax expense (benefit) components for the years ended December 31, 2019 and December 31, 2018 are as follows:

		2019 US$		2018 US$
Current tax expense/(benefit)				
Federal	$	–	$	–
Foreign		–		–
State		11,981		–
Deferred tax expense/(benefit)				
Federal		–		–
Foreign		–		–
State		–		–
	$	**11,981**	**$**	**–**

Notes to the Consolidated Financial Statements

Continued

NOTE 7 – INCOME TAXES CONTINUED

A reconciliation of the Company's provision for income taxes at the federal statutory rate to the reported income tax provision for the years ended December 31, 2019 and 2018 is as follows:

	2019 %	2018 %
Computed "expected" tax benefit	(21.0)	(21.0)
State income tax benefit, net of federal tax effect	0.0	(0.1)
Nondeductible equity-based compensation	1.0	–
Nondeductible interest expense on beneficial conversion feature	5.3	–
Other permanent differences	0.5	0.4
Change in valuation allowance	15.0	20.7
Rate differentials and other	(0.9)	–
Income tax expense (benefit)	**0.1**	**–**

The components of the net deferred tax assets and liabilities as of December 31, 2019 and 2018 are as follows:

	2019 US$	2018 US$
Deferred tax assets:		
Net operating loss carryforwards	$ 2,686,878	$ 959,000
Allowance for uncollectible accounts	861,239	149,255
Deferred Sezzle income	–	30,320
Equity-based compensation	30,047	2,110
Depreciation and amortization	7,482	2,866
Startup costs	11,488	11,913
Accruals	48,625	–
Other	539	–
Total net deferred tax assets:	3,646,298	1,155,464
Valuation allowance	(3,646,298)	(1,155,464)
Net deferred tax asset/(liability):	$ –	$ –

NOTE 7 – INCOME TAXES CONTINUED

The total amount of gross federal net operating loss carryforwards are $11,898,000 and $4,394,000 as of December 31, 2019 and 2018, respectively. The total amount of gross state net operating loss carryforwards are $1,735,000 and $461,000 as of December 31, 2019 and 2018, respectively. The federal net operating loss carryforwards that originated after 2017 will have an indefinite life and may be used to offset 80% of a future year's taxable income. The federal net operating loss carryforwards that originated before 2018 have expiration dates between 2036 and 2037. The state net operating losses will carryforward for 15-20 years and will expire beginning in 2031.

The Company's ability to utilize a portion of its net operating loss carryforwards to offset future taxable income is subject to certain limitations under Section 382 of the Internal Revenue Code due to changes in the equity ownership of the Company. An ownership change under Section 382 has not been determined at this time.

The Company established a valuation allowance against its deferred tax assets to reduce the total to an amount management believes is appropriate. Realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act tax reform legislation. This legislation makes significant change in U.S. tax law, including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The legislation reduced the U.S. corporate tax rate from the current rate of 35% to 21%.

The legislation also introduced a new Global Intangible Low-Taxed Income ("GILTI") provision. Under U.S. GAAP, the Company is allowed to make an accounting policy choice of either 1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period cost when incurred, or 2) factoring such amounts into the Company's measurement of its deferred taxes. GILTI depends not only on the Company's current structure and estimated future income but also on intent and ability to modify the structure or business. The Company has elected to treat GILTI as a current-period cost when incurred.

In November 2018, the U.S. Treasury issued proposed regulations for the new section 163(j), which generally limits business interest deductions to 30% of adjusted taxable income ("ATI"). Any disallowed business interest can be carried forward on an indefinite basis. For the year ended December 31, 2019, the Company was not subject to the business interest limitation.

Sezzle Canada Corp. does not have any earnings and no deferred tax liability has been booked related to unremitted earnings of the foreign subsidiary.

NOTE 8 – MERCHANT CONCENTRATION

There are no material concentrations for the years ended December 31, 2019 and 2018.

NOTE 9 – INCOME

SEZZLE INCOME

Sezzle receives its income predominantly from fees paid by retail merchant clients in exchange for Sezzle's payment processing services. These fees are applied to the underlying sales to End-customers passing through the Company's platform and are based on a percentage of the End-customer order value plus a fixed fee per transaction. End-customer 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 after that. Additionally, End-customers 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.

Notes to the Consolidated Financial Statements

Continued

NOTE 9 – INCOME CONTINUED

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 End-customer note using the effective interest rate method. The total Sezzle income to be recognized over the duration of existing notes receivable outstanding was $1,049,626 and $143,775 as of December 31, 2019 and 2018, respectively. Total Sezzle income recognized was $13,375,254 and $1,415,077 for the years ended December 31, 2019 and 2018, respectively.

END-CUSTOMER OTHER INCOME

Sezzle also earns income from End-customers in the form of failed payment fees assessed to End-customers 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 End-customer. Failed payment fees are recognized at the time the fee is charged to the End-customer, less an allowance for uncollectible amounts. Failed payment fee income recognized totaled $2,685,102 and $216,983 for the years ended December 31, 2019 and 2018, respectively.

NOTE 10 – STOCKHOLDERS' EQUITY (DEFICIT)

STOCK SUBSCRIPTIONS

As of January 1, 2018, stock subscriptions represented a receivable for consideration that has not been paid to the Company based on the subscription price agreed to between the stockholder and the Company related to the purchase of common stock. The Company issued a stock subscription receivable of $57,708 to employees for 19,416,666 shares of common stock at prices ranging from $0.0005 and $0.0065. Stock subscriptions are included within stockholders' equity (deficit). The total amount of stock subscriptions receivable was fully paid by the end of 2018.

PREFERRED STOCK DIVIDEND

On June 23, 2019, the Company issued a preferred stock dividend to preferred stockholders. Refer to Note 11 for further information.

CONVERSION OF PREFERRED STOCK TO COMMON STOCK

On July 24, 2019, the Company restructured its share capital in anticipation of listing on the Australian Securities Exchange (ASX). Each of the Series A preferred stock was converted into common stock. The Company issued 70,446,291 common shares upon conversion of 70,446,291 of Series A preferred stock, converted on a 1:1 basis in accordance
with the terms of the preferred stock agreements. Historical preferred stock issuances are outlined within Note 11.

CONVERSION OF CONVERTIBLE NOTES TO COMMON STOCK

On July 24, 2019, the Company issued 12,064,155 common shares following the conversion of the $5,812,500 of convertible notes outstanding, along with accrued interest, at a conversion price of $0.49 per common share. Refer to Note 16 for further information on the convertible note issuance.

INITIAL PUBLIC OFFERING OF COMMON STOCK

On July 29, 2019, the Company listed on the ASX. The initial public offer of 35,714,286 CHESS Depository Interests (CDIs) over shares of common stock (one CDI equates to one common share) were offered at an issuance price of A$1.22 (approximately $0.84) per CDI to raise approximately A$43.6 million, resulting in proceeds of $30,286,785. Total costs of the offer were $2,777,097, resulting in overall net proceeds of $27,509,688.

NOTE 11 – MEZZANINE EQUITY

PREFERRED STOCK

As of December 31, 2018, the Company had authorized and designated shares of Series A-1 through A-5 preferred stock as follows:

Series A-1:	174,652 shares
Series A-2:	15,584,042 shares
Series A-3:	18,291,457 shares
Series A-4:	33,981,205 shares
Series A-5:	25,401,218 shares

The Company also had 106,567,426 of preferred shares authorized but unissued and undesignated. On April 10, 2018, the Company issued 19,655,605 shares of A-1 through A-3 preferred stock in exchange for converted Simple Agreement for Future Equity (SAFE) agreements issued in prior years. The exchange of the SAFE agreements resulted in the issuance of preferred stock valued at $3,310,043. The initial cash proceeds of the SAFE agreements were $2,346,000. Refer to Note 15 for further information regarding the SAFE agreements.

During 2018, the Company issued 49,881,235 of A-4 and A-5 preferred shares in exchange for cash proceeds of $8,368,386, net of costs to issue.

As of December 31, 2018, the preferred shares were classified as mezzanine equity on the consolidated balance sheets due to the fact they were redeemable upon a deemed liquidation event, defined as a change in control upon a merger, consolidation, transfer or sale of the Company that the Company cannot control or prevent from occurring.

The preferred stockholders were entitled to receive, if declared by the Board of Directors, a preferential 6% noncumulative dividend. On May 1, 2019, the Company amended its articles of incorporation. One of the amendments required the first dividend declared by the Board of Directors to be calculated at 15% of the original issue price. On June 23, 2019, the Board of Directors declared and issued a dividend of 909,451 shares of Series A preferred shares to the existing holders of Series A-1 through A-5 preferred stock, valued at $763,939. The preferred stock dividend was classified as Series A-6 preferred stock and was subject to the same rights as all other series of preferred shares.

Additionally, the preferred shares were mandatorily convertible upon either (a) the closing of a public offering for the sale of common stock resulting in at least $50 million of proceeds, less issuance costs; or (b) the date and time, or occurrence of an event, specified by vote or written consent of the holders of a majority of the then outstanding preferred shares. Upon the occurrence of either of the aforementioned events, all outstanding preferred shares were to be automatically converted into common shares on a one to one basis. The conversion ratios of preferred to common stock price per share range from $0.1152 to $0.1684.

All preferred stock mandatorily converted to shares of common stock on July 24, 2019 in conjunction with the Company's initial public offering of common stock on the ASX. Refer to Note 10 for more information.

Notes to the Consolidated Financial Statements

Continued

NOTE 12 – EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution 401(k) plan for eligible U.S. employees. Plan assets are held separately from those of the Company in funds under the control of a third-party trustee. Participants in the plan may elect to defer a portion of their eligible compensation, on a pre or post-tax basis, subject to annual statutory contribution limits. The Company does not offer matching contributions and may make discretionary contributions. There have been no Company contributions made to the plan for the years ended December 31, 2019 and 2018.

NOTE 13 – REVOLVING LINE OF CREDIT

On November 14, 2018, Sezzle Funding SPE, LLC and Sezzle Inc. entered into a Loan and Security Agreement with Bastion Consumer Funding II, LLC ("Bastion"). The loan agreement provided for a credit facility of $30,000,000. As of December 31, 2018, the Company had an outstanding revolving line of credit balance relating to this agreement of $4,200,000, recorded within line of credit, net as a non-current liability on the consolidated balance sheets. The line of credit beared interest at a floating per annum rate equal to the 3-month LIBOR + 12% on the first $15,000,000 and 3-month LIBOR + 10% for the remaining $15,000,000 (14.74% as of December 31, 2018).

On November 29, 2019, Sezzle Funding SPE, LLC and Sezzle Inc. entered into a new agreement with the Syndicate for a credit facility of $100,000,000, with a maturity date of May 29, 2022. As of December 31, 2019, the Company had an outstanding revolving line of credit balance of $21,450,000, recorded within the line of credit, net as a non-current liability on the consolidated balance sheets. The new line of credit agreement bears interest at a floating per annum rate equal to the 3-month LIBOR + 7.75% on the $100,000,000 line (9.65% as of December 31, 2019).

Under the agreements, interest on borrowings is due monthly and all borrowings are due at maturity. Borrowings subsequent to May 1, 2019 are based on 90% of eligible notes receivable from both the United States and Canada, defined as past due balances outstanding less than 30 days and originating from the United States. Total interest expense incurred related to the line of credit was $908,309 and $80,744 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, Sezzle had pledged $23,757,188 and $4,656,967, respectively, of its notes receivable to Sezzle Funding SPE, LLC.

The Company's obligations under the agreement are secured by its installment payments receivable.

The Company must maintain a drawdown from the credit facility of at least $20,000,000 beginning November 29, 2019 and of at least $40,000,000 beginning November 29, 2020.

Sezzle will pay a termination fee and a make-whole fee to the Syndicate in the event of an early termination. Fees differ based on termination timing differences. Beginning May 27, 2020, any daily unused amounts will result in a facility fee due to the Syndicate from Sezzle at a rate of .50% per annum.

The cumulative total of debt issuance costs incurred to obtain and manage the line of credit with Bastion and the Syndicate totaled $663,649 through December 31, 2019. The costs were capitalized as a reduction to the line of credit balance, and are amortized over the remaining life of the agreement.

NOTE 14 – NOTES PAYABLE

On July 26, 2018, the Minnesota Department of Employment and Economic Development (DEED) funded a $250,000 seven-year interest-free loan due in June 2025 to Sezzle under the State Small Business Credit Initiative Act of 2010 (the "Act"). The Act was created for additional funds to be allocated and dispersed by states that have created programs to increase the amount of capital made available by private lenders to small businesses. The loan proceeds are used for business purposes, primarily start-up costs and working capital needs. The loan may be prepaid in whole or in part at any time without penalty. If more than fifty percent of the ownership interest in Sezzle is transferred during the term of the loan, the loan will be required to be paid in full, along with a penalty in the amount of thirty percent of the original loan amount.

NOTE 15 – FUTURE EQUITY OBLIGATIONS

During the year ended December 31, 2018, the Company entered into various SAFE agreements with investors in exchange for proceeds of $30,000. The SAFE agreements had no maturity date and bore no interest. The agreements provided the rights of the investors to preferred stock in the Company upon an equity financing event as defined in the agreements. The agreements were subject to valuation caps ranging from $8,000,000 to $12,000,000 and had conversion discount rates ranging from 15% to 25%.

Based on the terms of the SAFE agreements, if there were a liquidity event before the termination of the SAFE agreements, the investors would, at their option, either: 1) receive a cash payment equal to the purchase amount or 2) automatically receive from the Company a number of shares of common stock equal to the purchase amount divided by the liquidity price. In a dissolution event, the SAFE agreement holders would be paid out of remaining assets prior to holders of the Company's common stock.

The Company recorded the changes in fair value of the SAFE agreements at each reporting period to the consolidated statements of operations. The changes in fair value resulted in losses of $7,490 for the year ended December 31, 2018. The changes in fair value are recorded to other income (expense) within the consolidated statements of operations.

On April 10, 2018, the SAFE agreements converted into preferred stock.

NOTE 16 – CONVERTIBLE NOTES

On March 29, 2019, the Company issued $5,662,500 of convertible notes to a group of investors. The promissory notes had a stated maturity date of March 29, 2021 and paid an annual interest rate of 4% on the unpaid principal balance through June 30, 2019. Subsequent to June 30, 2019 the notes paid an annual interest rate of 8% on the unpaid principal balance. The notes were issued at a $25,000 discount which is amortized over the life of the convertible notes. Amortization of the discount totaled $4,281 for the year ended December 31, 2019 and is recorded within interest expense within the consolidated statements of operations.

Additionally, the notes carried a conversion feature whereby they would automatically convert upon either (a) a change in control of the Company; (b) a reorganization, merger, or consolidation of the Company; (c) the sale of the Company's assets; or (d) an initial public offering of the Company's common stock (or a security representing common stock). The notes also would have converted in the event the Company consummated an equity financing arrangement with an aggregate sales price of no less than $10,000,000. Upon the occurrence of one of the aforementioned events the notes would have converted into 80% of the price per share value of common stock applicable at the time of the event. The notes also carried an optional conversion feature whereby the notes may convert into common stock.

On June 6, 2019, the Company issued two separate convertible notes totaling $150,000. The promissory notes had a stated maturity date of June 6, 2021 with the option of individual 1-year renewable periods for up to five years should no conversion event occur. The notes would pay an annual interest rate of 10% on the unpaid principal balance through June 6, 2021.

Notes to the Consolidated Financial Statements

Continued

NOTE 16 – CONVERTIBLE NOTES CONTINUED

The first convertible note of $75,000 carried a conversion feature where it would automatically convert upon either (a) a change in control of the Company; (b) a reorganization, merger, or consolidation of the Company; (c) the sale of the Company's assets; or (d) an initial public offering of the Company's common stock (or a security representing common stock). The note would have also converted in the event the Company consummates an equity financing arrangement with an aggregate sales price of no less than $500,000. Upon the occurrence of one of the aforementioned events the note would convert into 80% of the price per share value of common stock applicable at the time of the event. The note also carried an optional conversion feature whereby the note may convert into common stock.

The second convertible note of $75,000 carried a conversion feature whereby the holder may convert, upon the holder's discretion, for either (a) a change in control of the Company; (b) a reorganization, merger, or consolidation of the Company; (c) the sale of the Company's assets; or (d) an initial public offering of the Company's common stock (or a security representing common stock). The note would have also converted automatically in the event the Company consummated an equity financing arrangement with an aggregate sales price of not less than $500,000. Upon the occurrence of one of the aforementioned events the note would have converted into 80% of the price per share value of common stock applicable at the time of the event. The note also carried an optional conversion feature whereby the note may convert into common stock.

The conversion features of the notes issued on March 29, 2019 and June 6, 2019 were triggered as a result of the Company's initial public offering of common stock on the ASX. The total non-cash impact of the beneficial conversion feature was $4,306,622, comprised of $4,197,674 of expense incurred on the date of conversion, and accumulated interest incurred on the convertible notes of $108,948. The impacts of the conversion are recorded within interest expense on beneficial conversion feature and interest expense, respectively, in the consolidated statements of operations for the year ended December 31, 2019.

NOTE 17 – EQUITY-BASED COMPENSATION

The Company issues incentive and non-qualified stock options, restricted stock units, and restricted stock awards to employees and non-employees with vesting requirements varying from two to four years (the typical vesting is a one-year cliff vesting and monthly vesting after the first year of service). The Company utilizes the Black-Scholes model for valuing stock option issuances, and the grant date fair value for valuing the restricted stock issuances.

Equity-based compensation expense recorded totaled $951,979 and $30,677 for the years ended December 31, 2019 and 2018, respectively, and is recorded within selling, general, and administrative expenses within the consolidated statements of operations.

2016 EMPLOYEE STOCK OPTION PLAN

The Company adopted the 2016 Employee Stock Option plan on January 16, 2016. The number of options authorized for issuance under the plan is 10,000,000. The Company had 8,336,253 and 7,430,000 options issued and outstanding as of December 31, 2019 and 2018, respectively. Additionally, the Company had 350,000 of restricted stock awards issued and outstanding as of December 31, 2019. During the year ended December 31, 2019, 882,914 options were exercised into 882,914 shares of common stock.

2019 EQUITY INCENTIVE PLAN

The Company adopted the 2019 Equity Incentive plan on June 25, 2019. The number of options authorized for issuance under the plan is 10,000,000. The Company had 8,716,250 options and 557,000 restricted stock units issued and outstanding as of December 31, 2019.

The following summarizes the options issued, outstanding, and exercisable as of December 31:

	2018			
	Number of Options	Weighted Average Exercise Price US$	Intrinsic Value US$	Weighted Average Remaining Life
Outstanding, beginning of year	752,500	$ 0.002	$ 3,315	–
Granted	6,677,500	0.049	–	–
Exercised	–	–	–	–
Forfeited or surrendered	–	–	–	–
Outstanding, end of year	7,430,000	0.044	44,749	9.48
Exercisable, end of year	949,961	0.018	30,761	8.44
Expected to vest, end of year	6,480,039	$ 0.048	$ 13,988	9.63

	2019			
	Number of Options	Weighted Average Exercise Price US$	Intrinsic Value US$	Weighted Average Remaining Life
Outstanding, beginning of year	7,430,000	$ 0.044	$ 44,749	–
Granted	11,971,250	0.891	–	–
Exercised	(882,914)	0.042	1,642,949	–
Forfeited or surrendered	(1,465,833)	0.215	–	–
Outstanding, end of year	17,052,503	0.624	14,895,996	9.18
Exercisable, end of year	3,396,325	0.071	4,731,629	8.40
Expected to vest, end of year	13,656,178	$ 0.762	$ 10,164,367	9.37

Notes to the Consolidated Financial Statements

Continued

NOTE 17 – EQUITY BASED COMPENSATION CONTINUED

The following table represents the assumptions used for estimating the fair values of stock options granted to employees, contractors, and nonemployees of the Company. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the grant date.

	2019	2018
Risk-free interest rate	1.59%-2.61%	2.26%-2.61%
Expected volatility	49.78%-82.88%	44.93%-50.42%
Expected life (in years)	6.00	5.82
Weighted-average estimated fair value of options granted	$ 0.64	$ 0.15

Restricted stock award and restricted stock unit transactions during the year ended December 31, 2019 are summarized as follows:

	Number of Shares	Weighted Average Grant Date Fair Value US$
Unvested shares as of January 1, 2019	–	$ –
Granted	907,000	1.14
Vested	(134,778)	0.94
Forfeited or surrendered	–	–
Unvested shares as of December 31, 2019	772,222	$ 1.12

During 2019, employees and non-employees received restricted stock grants totaling 907,000 shares, inclusive of 557,000 restricted stock units and 350,000 restricted stock awards. Vesting of restricted stock units and restricted stock awards are totaled 57,000 and 77,778, respectively. All restricted stock awards and 57,000 restricted stock units are recorded as issued and outstanding within the consolidated statements of stockholders' equity. The shares underlying the awards were assigned a weighted average fair value of $1.14 per share, for a total value of $1,036,324. The restricted stock issuances are scheduled to vest over a range of three to four years.

The Company had no restricted stock awards or restricted stock units issued or outstanding prior to 2019.

As of December 31, 2019, the total compensation cost related to non-vested options, restricted stock awards and restricted stock units not yet recognized is $7,720,545 and is expected to be recognized over the weighted average remaining recognition period of approximately 3.6 years.

NOTE 18 – LOSSES PER SHARE

The computation for basic loss per share is established by dividing net losses for the period by the weighted average shares outstanding during the reporting period. Dilutive losses per share is computed in a similar manner, with weighted average shares increasing from the assumed exercise of employee stock options (if dilutive). Given the Company is in a loss position, the impact of including assumed exercises of stock options and conversion of future equity obligations and preferred stock would have an anti-dilutive impact on the calculation of diluted loss per share. Therefore, stock options, restricted stock units, restricted stock awards, convertible notes and preferred stock shares are not included in the calculation of diluted loss per share for the years ended December 31, 2019 and 2018.

NOTE 19 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the filing of this report and determined that there have been no events that have occurred that would require adjustments to the disclosures in the consolidated financial statements.

Directors' Declaration

For the year ended December 31, 2019

The Directors declare that in the Directors' opinion:

(a) The attached financial statements and notes give a true and fair view of the consolidated entity's financial position as of December 31, 2019 and performance for the financial year ended on that date;

(b) There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable;

(c) The attached financial statements and notes comply with accounting principles generally accepted in the United States of America (U.S. GAAP) as issued by the Financial Accounting Standards Board as described in the notes to the financial statements;

(d) The attached financial statements and notes also comply with mandatory professional reporting requirements, including the *Corporations Act 2001*, the Accounting Standards, and the *Corporations Regulations 2001* to the extent that the Company is required to comply with such provisions; and

(e) The remuneration disclosures set out in the Directors' Report comply with *Corporations Regulations 2001* and other mandatory professional reporting requirements to the extent that the Company is required to comply with such provisions.

The Directors have been given a declaration by the Chief Executive Officer and Chief Financial Officer equivalent to section 295(a) of the *Corporations Act 2001*.

On behalf of the Board,

Charlie Youakim,
Chairman and CEO

27 February 2020

ASX Additional Information

Between the date of the Company's admission to the official list of the ASX on July 29, 2019 and the end of the reporting period on December 31, 2019, the Company used its cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

Additional information required pursuant to ASX Listing Rule 4.10 and not disclosed elsewhere in this report is set out below. The information is effective as of February 21, 2020.

CORPORATE GOVERNANCE:

The Company's Corporate Governance Statement for the year ended December 31, 2019 can be found at https://sezzle.com/investors

SUBSTANTIAL SHAREHOLDERS:

As a company incorporated in Delaware and listed solely on the ASX, neither Chapter 6 of the *Corporations Act 2001* (Cth.) (**Corporations Act**) or the corresponding provisions of the Securities Exchange Act of 1934 dealing with notification of substantial holding apply to shareholders in Sezzle. However, as disclosed to the ASX on July 29, 2019, the Company has agreed with ASX to release to the market certain information about a person (other than Sezzle itself) becoming a substantial holder in the Company within the meaning of section 671B of the Corporations Act, varying its substantial holding by 1% or more or ceasing to be a substantial holder.

Having regard to the qualifications and limitations as disclosed to the ASX, the table below sets out the information known to Sezzle as of February 21, 2020 concerning substantial holdings in Sezzle's CDIs.

Name of Substantial Holder within the meaning of section 671B of the Corporations Act	Record Holder (if different)	Number of CDIs in which the substantial holder holds a relevant interest	% of total shares on issue
Charlie Youakim	N/A	88,359,809	49.63%
Continental Investment Partners	N/A	10,389,407	5.84%
Paul Paradis	N/A	10,000,000	5.62%

NUMBER OF HOLDERS OF EACH CLASS OF EQUITY SECURITIES:

Category	Number of Holders
CHESS Depositary Interests (quoted on ASX)	3,722
Unlisted Options (not quoted on ASX)	129
Restricted Stock Units (not quoted on ASX)	4
Common Stock (not quoted on ASX)	14

VOTING RIGHTS:

Shareholder and CDI Holder voting rights are summarized within section 9 'Additional Information' (page 123) of the Company's Replacement Prospectus dated July 8, 2019 and section 9.4 (b) on page 125.

DISTRIBUTION SCHEDULE OF CDI HOLDERS:

Range	Total Holders	CDIs	% of CDIs
1 – 1,000	1,196	634,902	0.36
1,001 – 5,000	1,302	3,379,925	2.10
5,001 – 10,000	585	4,687,585	2.63
10,001 – 100,000	580	13,704,433	7.70
100,001 Over	59	155,278,719	87.21
Total	**3,722**	**178,045,564**	**100.00**

UNMARKETABLE PARCELS:

There were 304 holders of less than a marketable parcel of CDIs, comprising a total of 62,324 CDIs (0.035% of CDIs on issue), being a parcel of less than 274 CDIs based on a closing price of AUD$1.83 per CDI on February 21, 2020.

TOP 20 CDI HOLDERS:

Name	Number of CDIs Held	% of CDIs
CHARLES G YOUAKIM	88,359,809	49.63
CONTINENTAL INVESTMENT PARTNERS LLC	10,389,407	5.84
PAUL PARADIS	10,000,000	5.62
KILLIAN BRACKEY	5,000,000	2.81
NATIONAL NOMINEES LIMITED	3,448,542	1.94
CITICORP NOMINEES PTY LIMITED	3,400,722	1.91
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	3,368,341	1.89
MR LEE BRADING	3,338,517	1.88
UBS NOMINEES PTY LTD	1,811,158	1.02
MR BRYAN KRUG	1,715,041	0.96
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	1,705,563	0.96
JACK ZIEGLER	1,500,000	0.84
CARMELA BERNAD	1,416,666	0.80
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,242,000	0.70
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	1,208,415	0.68
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	1,111,816	0.62
MR CHRIS HARDING	1,012,508	0.57
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	1,005,514	0.56
MR BRYAN CECIL HUNT	1,000,000	0.56
RISHI MUKHERJEE	1,000,000	0.56
Total Top 20	**143,034,019**	**80.34**
Total Balance of Holders	**35,011,545**	**19.66**
Total CDIs	**178,045,564**	**100.00**

ASX Additional Information

Continued

ESCROWED SECURITIES:

Category	Number	ASX or Voluntary	End of Escrow Period
CDIs	9,553,571	Voluntary	March 2, 2020
CDIs	4,710,724	ASX	March 29, 2020
CDIs	126,550	ASX	June 6, 2020
CDIs	226,001	ASX	June 23, 2020
CDIs	248,346	ASX	July 24, 2020
Options	845,000	ASX	July 30, 2021
CDIs	93,975,244	ASX	July 30, 2021
Options	2,208,334	ASX	
Restricted Stock Units	350,000	ASX	

UNQUOTED SECURITIES:

Category	Number of Units	Number of Holders
Options	17,052,503	129
Restricted Stock Units	500,000	4
Common Stock	885,748	14

BUY-BACK:

There is **no** current on-market buy-back.

The Company is listed on the Australian Securities Exchange under the code 'SZL'.

Corporate Directory

Sezzle Inc. ARBN 633 327 358

DIRECTORS

Charlie Youakim
(Executive Chairman and Chief Executive Officer) – USA

Paul Paradis
(Executive director and Chief Revenue Officer) – USA

Paul Purcell
(Independent Non-Executive Director) – USA

Kathleen Pierce-Gilmore
(Independent Non-Executive Director) – USA

Paul Lahiff
(Independent Non-Executive Director) – Australia

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

UNITED STATES

REGISTERED OFFICE:

A Registered Agent Inc.
Suite 8A, 8 The Green
City of Dover, Kent County
Delaware 19901, USA

PRINCIPAL PLACE OF BUSINESS:

251 N 1st Ave N, Suite 200
Minneapolis, MN 55401, USA
Tel: + 1 651 504 5402

AUSTRALIA

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS:

Suite 6.02, Level 6
28 O'Connell Street
Sydney NSW 2000
Tel: + 61 2 9048 8856

ASX CODE

SZL

COMPANY SECRETARY

Justin Clyne

AUDITORS

Baker Tilly Virchow Krause, LLP

225 South 6th Street, Suite 2300
Minneapolis, MN 55402

Tel: + 1 612 876 4500
www.bakertilly.com

SOLICITORS

SQUIRE PATTON BOGGS

AUSTRALIA

Raine Square
Level 21, 300 Murray Street
Perth WA 6000

Tel: + 61 8 9429 7444
www.squirepattonboggs.com

UNITED STATES

1801 Page Mill Road #110
Palo Alto, CA 94304
Tel: +1 650 856 6500

SHARE REGISTRY

COMPUTERSHARE INVESTOR SERVICES PTY LIMITED

Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

Tel: + 61 3 9415 5000
www.computershare.com/au
Australia

INVESTOR INQUIRIES

investors@sezzle.com

WEBSITE

www.sezzle.com

sezzle

SEZZLE.COM