SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Andrea Prochniak: Thank you all for joining us today for SoFi's second quarter of 2021 earnings call. I'm Andrea Prochniak, SoFi's VP of investor relations. And I'm thrilled to be here kicking off SoFi's quarterly reporting process as a public company. Joining me today are Anthony Noto, SoFi's CEO, and Chris Lapointe, SoFi's CFO. They will share prepared remarks regarding the quarter's results, and then take your questions at the end.

Just after market close today we issued a press release announcing SoFi's second quarter 2021 financial results. Our discussion of our results today is complementary to the press release, which is available on the investor relations page of our website. Investors dot SoFi dot com. This conference call's being webcast live with accompanying slides on our IR page. And will be available for a replay for 30 days, beginning about one hour after the conclusion of this call.

During the course of this conference call we may make forward looking statements based on current expectations, forecasts, and projections as of today's date. Any forward looking statements that we make are subject to various risks and uncertainties. And there are important factors that could cause actual outcomes to differ materially from those indicated in the statements.

We discuss these factors in our filings with the SEC, including our upcoming Form 10-Q, which can be found on the IR page of our website. Or the SEC's filings website. SEC dot gov dot slash Edgar. As a reminder, we are not required to update our forward looking statements.

In our presentation today, unless otherwise noted, we will be discussing adjusted financial measures, which are non-GAAP measures that we believe are meaningful when evaluating the company's performance. For the tale of disclosure on these measures, and the GAAP reconciliations, you should refer to the financial data contained within our press release, which is also posted on the IR page of our website.

While today's discussion will focus primarily on the second quarter results, we encourage you to evaluate SoFi's performance on an annual basis, as quarterly results can be affected by unexpected events that are outside our control. Now I'll turn the call over to Anthony.

Anthony Noto: Thank you, Andrea. Welcome all to SoFi's first earnings call as a public company. We're excited to speak with you today about our second quarter results. I want to start by providing you with a short overview of our mission, our strategy, our job to be done, which is more commonly referred to as our value proposition, and our points of differentiation.

Our mission is to help our members, predominantly made up of what we call high earners not well served, achieve financial independence to realise their ambitions. Our strategy is to offer a comprehensive suite of products and services so that we are there for every major financial decision in our members' lives, and all the days in between.

My passion for SoFi increases every day. Driven by the impact that we have on our members' lives. That impact is driven by our focus on a unique value prop. One job to be done, which is helping our members get their money right by giving them a one-stop shop to borrow better, save better, spend better, invest better, and protect better.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Financial decisions are uniquely both rational and emotional. That's why earning the confidence and trust of our members by building lifetime relationships with them is so important. We do this in two ways. One, we constantly strive to create best of great offerings in terms of speed, selection, content, and convenience by using member feedback to drive continuous iteration and learning. Which drives compounding innovation over time that should make each product great on its own.

And second, not only do we strive to make each of these products best in class, we also obsess over how to make them work better when they're used together. When we do both of these things right, we not only deliver unique SoFi experience to our members, that improves with each new product they choose. But we can also create the best unit economics across our business.

As we get more efficient in serving our members, we can invest that savings in offering members the best rates, no fees, the best prices, terms, and selections. This in turn drives more engagement, more data, and our ability help our members use more products to get their money right. We call this the financial services productivity loop. And it's working.

We see it in the numbers. Excelling year-over-year growth in members and products. Increasing member-wide pen values. Declining member acquisition costs. Superior revenue growth and improving margins. Today, to the best of our knowledge, SoFi is the only company providing a comprehensive solution set in one easily used mobile first digital platform. Many companies have talked about it. But only SoFi has done it.

Now let's get into the quarter. I'll take you through a few high-level takeaways, and then Chris will take you through the results in more detail. The second quarter proved to be a very strong quarter full of milestones. We wanted to highlight four key points from the results.

First, our strategy and execution are driving record results. Second, we are constantly striving to iterate, learn, and iterate some more in order to compound innovation, and differentiate our products.

Third, we are hitting an inflection point in our financial services productivity of strategy with a number of financial services products used by the members reaching nearly three X the number of lending products during the quarter versus about equal one year ago. And fourth, we continue to invest aggressively to ensure we're driving compounding growth while still delivering profitability.

Let's take these one by one, starting with our strategy and execution are driving record results. Specifically, we achieved record adjusted net revenue of $237 million despite our student loan refinancing business operating at less than 50% of pre-Covid levels due to the CARES Act. Which is a great testament to the diversity of our business.

Total members grew 113% year-over-year, which is our eighth consecutive quarter of accelerating year-over-year growth. Total products held by our members increased 123%, our fourth consecutive quarter of year-over-year growth of more than 100%. We demonstrated a continued strong cross-buying trend, with cross-bought products up 1.7 X versus a year ago.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Galileo, our technology platform business, more than doubled its total client accounts to 79 million, and just crossed $100 billion of annualised payment volume in July.

We delivered our fourth consecutive quarter of positive EBITDA. And our financial services segment revenue had a breakout quarter of 2.5 X versus Q1 2021.

This brings me to the second key takeaway. In the quarter we demonstrated our commitment to constantly iterate across four factors: fast, selection, content and convenience, to drive compounding innovation.

These are just a few examples of what we did in the quarter. Our products are 100% digital. And there are infinite ways to tailor them to a specific member's needs. To ensure our members get the right loan for them, we launched a next gen credit model and reengineered our fraud and income verification processes. This drove a 30% higher approval rate with the same credit box leading to a 60% increase in fund conversion and improved net promoter score. All with zero negative impact on credit quality.

Across lending we continue to invest in automation to make the loan application process easier, faster, and lower touch. In Q2 more than 50% of personal loans processed were 100% automated. That compares with less than 30% one year ago, which drover lower cost per loan and shortened time to fund to two days from four days last year, and nearly a week a few years ago.

In student loans, we worked to align with members' individual needs throughout the pandemic, specifically by introducing a snooze feature. The snooze feature allows borrowers to lock in a low rate on a student loan today but delays the start of payments until the CARES Act loan deferral program ends in January 2022.

In SoFi Money, we enhanced our direct deposit offering by adding two-day early paycheck to earlier enhancements like free overdraft protection, autosave, and round up features.

In SoFi Invest members asked for more cryptocurrency selection. So we added 16 points to the offering. We also added the ability to redeem SoFi Reward points earned on all of SoFi products into cryptocurrency. And we were one of the first to offer IPO investing at the IPO price via our new IPO investment center.

Also in Invest, we added to our already strong SoFi ETF offering by launching SoFi Weekly. The first ever equity ETF that pays weekly dividends. This joins SoFi TGIF, our fixed income ETF, which pays a dividend every Friday.

At Galileo we're near completion on a 15 month project to build out a new Cloud computing environment to replace the on-premises environment. And are now in Q3 focused on the migration of existing clients to the Cloud, which will be followed by on-boarding new clients straight to the Cloud. We also continue to grow the Galileo partner base. Signing up 22 new partners in the first half of 21, with 12 of those in Q2, including some focused on enterprise and cryptocurrency.

Finally, we continue to iterate and innovate on our unique rewards program. By adding additional reward triggers when members set up recurring purchases, or recurring deposits in SoFi Invest, or direct deposit in SoFi Money. Or when members use the app to take actions that make their financial life better. Since launch, Rewards has

contributed meaningfully to cross-buying engagement. Already members have earned 450 million points, with new ways to earn in the works.

This is just a sample of all the innovation introduced this quarter. And we have much more in the pipeline. So, stay tuned.

The third message I want to hit on today is the inflection point we have reached with the financial services productivity loop strategy. We worked hard to scale financial services offering, which includes products like SoFi Money, SoFi Invest, SoFi Relay, and SoFi Credit Card. As these products have a much broader appeal, with lower customer acquisition cost, and greater daily engagement compared to lending products, which have significantly higher LTV but are used less frequently, and by fewer people.

Driving greater scale in the top of our member funnel with financial services products drive two crucial benefits. First, it results in more members, more usage, and more data across a set of products with extremely attractive standalone characteristics. And second, this drives greater volume of cross-bought products at lower overall acquisition costs leading to superior economics and lifetime value.

We are seeing our efforts pay off. In Q2, we reached a critical inflection point with a number of financial services products held by SoFi members, at nearly 2.7 million, is now nearly three times the number of SoFi lending products at almost 1 million. A year ago they were about equal in number.

The three X greater scale is helping drive a 1.7 X increase in number of products that were cross-bought in the quarter versus Q2 2020. The profitability of our lending products is already at industry highs. And it increases dramatically when loans are cross-bought, because there is no additional cost from acquisition. This further solidifies our superior lifetime values, leading to our ability to offer unmatched value to our members.

The last point I'd like to drive home today is that we continue to invest aggressively in our business to fuel compounding growth while still delivering profitability to our shareholders. This combination is not easy. But we're committed to contributing around 30% of incremental revenue to the bottom line and reinvesting the remaining 70% in bolstering our product innovation to drive decades of compounding growth.

Even as we invest aggressively in technology, marketing, and people, we continue to realize cost efficiencies, which is beginning to drive real operating leverage. By leveraging cross-buying and better data utilization and targeting, we've reduced sales and marketing as a percentage of revenue, and customer acquisition costs meaningfully year-over-year.

We have also improved our member services capabilities, reduced onboarding friction points via implementation of more streamlined processes, including leveraging data, to improve communications. All to drive down operating expenses and improve efficiencies. All the while we've worked to drive improved product NPS with better products and greater automation, which in turn reduces contacts and frees up resources to play offense.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

In summary, we had record results with accelerating growth, and a lot of milestones we're proud of as we head into the second half of the year. But rest assured, we are committed to running faster, reaching higher, and achieving more every day. With that, let me turn over to Chris to run through the results in detail.

Chris Lapointe: Thanks, Anthony. And good afternoon everyone. We had a great quarter with strong growth trends across all our businesses. We exceeded our financial outlook while achieving record revenue and our fourth consecutive quarter of positive EBITDA. We're excited about these trends and are focused on building on this momentum as we move into the back half of the year.

I'm going to walk you through some key financial highlights for the quarter, and then share some color on our financial outlook. Unless otherwise stated, I'll be referring to adjusted results, and all period-to-period comparisons refer to our second quarter of 2021 versus second quarter of 2020. Our GAAP consolidated income statements and all reconciliations can be found in today's earnings release, and in our upcoming 10-Q filing.

For the quarter our adjusted net revenue grew 74% year-over-year to $237 million. A new record. That exceeded the midpoint of our 215 to $220 million of guidance by 9%.

We also delivered $11 million of adjusted EBITDA, which is up $35 million year-over-year. That exceeded the midpoint of our negative eight to positive $2 million of guidance by $14 million.

Our incremental EBITDA margin, which is the change in EBITDA versus the year-ago period divided by the change in the revenue for a given period, and a good indicator of our long term margin potential, was in the 30% range year-over-year.

As we discussed, over time we intend to reinvest 70% of incremental revenue back into the business in order to drive sustainable growth for years to come. We continue to make great strides on an annual basis as well, despite the on-going environment of significant uncertainty and macro volatility.

Over the last 12 months we've generated $852 million of adjusted net revenue. And that includes the negative impact of interest on corporate debt, as well as the small charge we took related to our prior investment in Apex. Excluding these two non-recurring items, the last 12 months adjusted revenue is closer to $885 million, or 89% higher than in 2019, our last full year of pre-Covid results.

From a profitability perspective we generated $61 million of positive EBITDA over the last 12 months. A significant improvement from the $149 million of losses we took in 2019.

Before I get into the details of our performance in the quarter, I want to quickly remind everyone that we look at and manage our business across three segments. First, our lending segment includes student loan refinancing, personal loans, home loans, and in school loans. This segment is primarily a gain on sale model, whereby we originate loans and recognize the gain when we sell them via our home loan or securitisation channels. We also generate net interest income by holding these loans on the balance sheet prior to sale.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Second, our technology platform includes Galileo. And we generate revenue on a per transaction basis when customers swipe their cards, make deposits and withdrawals, or when API calls are made.

And then finally, our financial services segment includes Money, Invest, Credit Card, Lantern, Protect, Relay, At Work, and our new equity capital markets and advisory business. These revenue streams are dependent on business activity. But primarily driven by member assets on the platform and engagement.

Now onto the segment level performance. Our lending businesses grew 47% to $172 million in adjusted net revenue driven by 66% in growth in funded volume across all products to $2.9 billion in total. The largest contributor of that growth in funded volume was our personal loans business, which grew 188% to $1.3 billion.

We also saw material growth in gain on sale revenue across both our student loan refinancing and personal loans businesses, which speaks to the quality of the loans that we're underwriting. It's worth noting that we achieved this revenue growth despite significant headwinds in our student loans business, where the $859 million in origination volume in the quarter was less than half of pre-CARES levels.

The lending business delivered $89 million of contribution profit at a 52% margin. That's up from $49 million a year ago at a 42% margin. Margin improvement was driven by efficiencies in marketing and operations that have brought cost per funded loan down meaningfully across both our personal loans and student loan refinancing businesses. As well as success in executing against our financial services productivity loop strategy.

Switching to our tech platform, which delivered net revenue of $45 million in the quarter. This is driven by 119% year-on-year Galileo account growth to 79 million in total. The tech platform delivered $13 million of profit at a 29% margin. And margins are down year-over-year due to our significant investments in technology capabilities overall. Our migration from on premise to the Cloud, as well as ongoing investments in new products and geography. Something that we highlighted during our roadshow.

I'll also remind you that our Q2 2020 contribution included our equity investment in Apex, which was a 100% margin revenue stream. That contribution ended in January of this year.

Overall, we believe the appropriate long term margin for this business is around 30%. But we will continue operating in the 20 to 30% range to set the stage for compounding growth for years to come.

On to our financial services business which really hit an inflection point in the second quarter with revenues of $17 million up 7 X versus the prior year quarter, and 2.6 X sequentially. That growth was driven by exponential growth in products which more than tripled year-over-year to 2.7 million from the 780 000 in Q2 of 2020. Every one of our financial services products grew by triple digits year-over-year. We hit the million product mark in Invest. Surpassed 950 000 in Money, and 600 000 in Relay.

We also launched a new equity capital markets and advisory business in the second quarter. Excluding this new initiative, revenue was still up 5X year over year, and 2X sequentially.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Financial services generated $25 million in contribution losses during Q2, an improvement of $6 million from a loss of $31 million a year ago, and an improvement of nearly $10 million if you exclude acquisition marketing. As in our lending segment, this margin improvement was driven by efficiencies in both marketing and operations.

The next thing I want to address is our balance sheet. Overall, we're very well capitalized after receiving the $2 billion of proceeds in June. Our current book value is $4.5 billion and our capital leverage ratios are extremely strong. We also have access to nearly $6 billion of warehouse capacity, to help fund the operations of our lending businesses.

We're excited about the strength of our balance sheet, and we'll continue to make choices that ensure the most efficient cost and use of capital.

I'll finish up with guidance. Looking ahead, we are encouraged by how our various growth initiatives are driving the momentum of our business as we head into the back half of the year. For Q3, we expect continued strong growth with $245 million to $255 million have adjusted net revenue, up from $237 million we've just reported in Q2, despite the fact that we no longer expect a rebound in our student loan refinancing business in September of 2021.

Specifically, we had factored that CARES Act would end on September 30th into our original guidance, but with last Friday's announcement that CARES will definitively expire on January 31, 2022, we have shifted our planning stance.

Despite this shift, we believe the ongoing momentum in our other businesses will offset the absence of the previously expected growth in SLR demand, to drive quarter-over-quarter growth to the $245 million to $255 million range. Our expected adjusted EBITDA range is negative $7 million to positive $3 million.

For the full year, we're maintaining our original guidance of $980 million in adjusted net revenue and $27 million of adjusted EBITDA, despite the negative impact of the following unanticipated factors.

First, I just covered the CARES Act extension, which has an estimated $40 million negative revenue impact to our original guidance. Second, we originally included $12 million of 2021 revenue in our guidance from our equity investment in Apex. As I mentioned earlier, contribution from that investment ended in January, and we will not have the $12 million in 2021.

In summary, we expect to be able to offset this $52 million in previously unanticipated revenue headwinds through the strong momentum we're seeing across the business. Overall, we're thrilled with our Q2 results. We've made a ton of progress and are very well capitalized to continue pursuing our longer-term objective of being a leading financial institution serving every one of our members needs throughout their lives. With that, let's begin the Q&A.

Operator: As a reminder, if you'd like to ask a question, please press star followed by one and your telephone keypad. If you change your mind, please press star followed by two. And when preparing to ask your question, please ensure your phone is unmuted locally. Our first question comes from Sean Horgan of Rosenblatt Securities. Sean, the line is yours.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Sean Horgan: Thanks. Hey, guys, thanks for taking my question. I wanted to start on the financial services, is a very high point, I think, for the quarter. So can you talk about the behaviour you're seeing there? Maybe cross buy-rates at the product level for incremental financial services products? And also, I'm just wondering, on the lending side, personal loan origination saw strong uptick, so can you talk about the drivers there, and then just touch on your thoughts on BNPL as a potential future product offering?

Anthony Noto: Great, thank you for the questions. In terms of the financial services segment, we're seeing really strong growth, as Chris mentioned, across all the products there with triple-digit growth in SoFi Money, SoFi Invest as well as recently launched SoFi Credit Card. We're also seeing nice contributions from our product-comparison offering called Lantern, in addition to great leverage from our distribution and platform capabilities in the enterprise channel, which is called At Work.

So we're really pleased with the way we're executed across the board. As we mentioned on the call, the business really saw a key inflection point in the quarter with revenue up 2.5X in Q2 versus Q1, as we're now starting to monetize all that activity.

It's a critical element of our overall strategy because these products are much lower customer acquisition cost products. They do provide great lifetime value, but it pales in comparison to the lending products. And so we leverage them at the top of our funnel. So the bigger these products get, the bigger the top of our funnel gets, and it feeds to the bottom of the funnel, where we make really, really high LTV on the loan products, which have great variable profit margins.

And so we're starting to see that continue. We've seen really strong cross-buying rates both from the top of the funnel from the bottom, as well as within the funnel across the products. We shared, when we were going through the public process, that our cross-buy rates were continuing to increase. And were in the mid-20 range, and they continue to be very strong.

So we're really happy with the overall strategy, and the key inflection point now at the top of the funnel is meaningfully greater than the bottom of the funnel, and we see those trends continuing.

As it relates to the overall environment for personal loans, I'm going to turn over to Chris to give you some perspective on how our business operates in different rate environments, and what we saw in the quarter.

Chris Lapointe: Yes, thanks, Anthony. And thanks, Sean, for the questions. In terms of our overall lending business, one of the things that we're really excited about is that it benefits across different macro environments and interest rate environments. In high interest rates, our personal loan business does really well, in low interest rate environments, our student loan refinancing and home loans business do better with higher demand.

What you saw coming out of the end of Q2 was a rising rate environment, and our personal loans business did extremely well. We ended up originating about $1.3 billion in originations, which is up 188% year over year, and significantly up from pre-COVID levels when we were originating between $800 million and $1 billion. So we're really enthusiastic about the trend lines that we're seeing in personal loans.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Anthony Noto: And then, as it relates to buy-now-pay-later, for those that aren't familiar, we have four different lending products today. We have in-school loans for those going off to undergrad college. We refinance student loans. We also have a home loan, which is primarily refinance, today. And then in addition to that, we have student loan refinancing.

We also have revolving credit with a credit card, and we'll continue to look at new loan products to provide to our members. There's a lot of enthusiasm in the marketplace right now for buy-now-pay-later. We do think we participate in retail with a number of different products, and we will continue to find ways to innovate across the range of lending products that we have.

The great thing is we're vertically integrated in loans from top to bottom, which makes us a low-cost operator, and gives us a great platform to add other products onto without a lot of incremental fixed cost.

Sean Horgan: Great, thanks for the answers, guys. So the next one, I wanted to see if we could get an update on the bank charter process. I'm curious, has it been a cooperative process? Or have there been any pain points? And do you still expect the process to conclude before year-end?

And then lastly, I've been getting some questions on Gemini and the involvement there. I think there was a release by the Fed that that has Gemini in the release along with you guys, so if you can just touch on that and clear that up, that'd be great. Thanks.

Chris Lapointe: Sure. To clarify the Gemini question, I'm not what that's about. But on the bank charter, yes, we've been really encouraged. And just to give people some history, I'll walk back in time and where we started with the bank application process and where we are now.

But to answer your question upfront, we're really encouraged by the process. It's been great to work with the Federal Reserve Bank and the OCC. They've been incredibly constructive, and it's been a really good process for us. They've been really clear in what they expect. We've been able to provide them that feedback and that information and give them access to our team and our processes. And in the cases where they've had additional questions, we've been able to respond in a way that is also constructive.

But to give you some perspective, for those that aren't familiar, we applied for a national bank charter license in July of 2020 with the OCC. We were really encouraged when we received preliminary conditional approval in October of 2020.

We hadn't applied, at that point, to the other regulatory bodies because we needed to convert our capital structure from our preferred equity capital structure to a common equity capital structure. And we'll be able to accomplish that by going public.

In addition to going public to make that transition, we announced a proposed acquisition of a small existing bank called Golden Pacific. And at that time, we refiled with the Federal Reserve and the OCC in March of 2021, in a Change in Control Application process versus our original application in July of 2020, that was the de novo process.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Since that time, we've been going through exams and reviews with both the OCC as well as the Federal Reserve. And as I mentioned, it's been a very constructive process. We've enjoyed working with both regulatory bodies. There's not a definitive timeline to the process itself, we keep going through each step in the process with them, and we're encouraged about the outlook. We think we have the right type of company to be a national bank, and it's a matter of continuing to work with them through the process. And we'll give you updates as we have them, but we remain encouraged about the process and where we'll end up.

And then as it relates to Gemini, could you just clarify for me, our crypto business is one that we partner with a couple of partners on, most mostly Coinbase, so not sure what you're referring to as it relates to Gemini.

Sean Horgan: Yes, so there's a release from the Federal Reserve Bank of San Francisco, it says a SoFi and Gemini Merger Sub Inc. plan to become bank holding companies by acquiring Golden Pacific.

Chris Lapointe: Yes, that Gemini reference is actually Golden Pacific.

Sean Horgan: Got it. Okay, thank you. I'll get back in the queue, and thanks for taking the question.

Chris Lapointe: Thank you, Sean.

Operator: Our next question comes from Dominick Gabriele of Oppenheimer. Dominick, the line is yours.

Dominick Gabriele: Great. Congrats on your first conference call, and thanks so much for the updated disclosures and the press release and slides.

Chris Lapointe: Thank you.

Dominick Gabriele: Obviously, in the quarter, there was really good number growth, there was really good revenue growth across the lending segment, as well as the financial segment. I guess if we think about the technology platform, and the revenue growth there, and what your original expectations are through basically 25, is there anything that's changed in that platform as far as how your ultimate revenue mix may hash out in 21, and through your original expectations?

Anthony Noto: Thank you. To answer your question right up front, we couldn't be more encouraged by the acquisition of the Galileo Technology platform. The progress that we've made with the business and the integrations of our overall company, we're seeing really strong growth. And let me give you a few highlights, and we'll talk through your question in more detail.

We saw 190% growth, year over year, in the partner accounts that we have, reaching 79 million accounts enabled by the Galileo platform. That's up from 36 million accounts, when we closed the deal in Q2 of 2020. So really strong growth on accounts.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

We've also continued to grow the partnership base. We added 22 new partners on Galileo in the first half of 2021. We added 10 in Q1, and we're adding 12 in Q2. Those are announced deals, they take a while to implement.

And so we've added 22 new partners to our partner list so far in 2021, and that compares to really strong growth of 41 new partners in 2020, with seven in the fourth quarter.

So our expectations for the business, its ability to capture the sector transition of physical payment to digital payments has only been reinforced by the last 15 months of owning the business. The financial results have also been very positive.

Last thing I'd mention about Galileo and where we're headed is we've made a significant investment in the technology over the last year. Our first priority was to ensure that we developed stability, reliability and responsiveness in the current on-premises platform for the current partners, and at the same time built out an entire cloud environment over the last 15 months.

That cloud environment is now built and we've begun transitioning partners over. Once we complete that transition to the cloud from on-prem, we'll have significant cost savings that we can reinvest back in the business. We'll also be more agile and our ability as well to develop new products and deploy them to our partners, and we have a really robust product pipeline on top of the products that Galileo has historically offered.

And that will not only increase the revenue and partnerships with our existing partners but will also allow us to reach a broader swathe of new partners and continue on that partner list that I mentioned.

That transition will take place over the next six months, and in addition to that we'll be onboarding our new partners that we've announced straight into the cloud as opposed to on-prem.

Let me turn it over to Chris to talk about the specifics on the revenue in the quarter, and then our outlook for Q3 as relates to revenue, and then I'll come back about the longer-term outlook.

Chris Lapointe: Thanks, Dominick, for the question. So in terms of the overall revenue for the quarter, obviously we're really excited about the trends that we're seeing that Anthony mentioned. From a transaction perspective, we saw strong revenue growth year over year.

The $45 million of revenue that we had on the quarter was impacted by an intentional delay of our migration to the cloud by one quarter, which ended up resulting in a one-time lower-than-normal payment from one of our clients, which negatively impacted revenue for Q2.

If you were to exclude the impact of that item, you would have seen good solid sequential growth in revenue. Then, the only other thing I would note, as it relates to tech platform revenue, is that in Q1 we benefited meaningfully from the two stimulus checks that were issued by the US government, which also made it a pretty tough comp.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Overall, while we're not guiding at the segment level from a revenue perspective to the rest of the year, I would say that we are expecting to see stronger quarter-over-quarter growth into Q3, and specifically, we expect to be in the mid to high-single-digit percentage growth range compared to Q2 of 21.

And then the only other thing I would note, as it relates to has guidance change for the segment overall in our in our long-term outlook, I would say that our original five-year model and guidance that we have given included the impact of our equity investment in Apex, which was about $12 million of revenue that was embedded in our original 2021 plan.

Apex called their investment back at the beginning of the year, and we're no longer going to see that $12 million embedded in revenue for 2021. That was in the tech platform.

Anthony Noto: But separate from that, our outlook for Galileo, there's no change to what it was before.

Dominick Gabriele: Excellent, thanks so much for all that colour, that's great. And then, the numbers in the member acquisition, the revenue per product and the cross-sell that you're seeing is, it's obviously much better than we were then we were expecting this soon. Can you just talk to the mix of your products and how that can translate into a better revenue-curve product over time?

And then, maybe you can talk about, on average, how many products, over your horizon here through 2025, if you may, your clients are expecting them to have? That'd be really great, thank you so much.

Anthony Noto: In terms of the monetization of the products, in the financial services segment monetizations are very early. I'll pop through some of the drivers and how that will continue to improve over time, but we've obviously benchmarked each of these businesses versus industry standards, and we see ourselves at or better than what others have seen at similar points in time.

So for the SoFi Invest business, we uniquely have single stocks, fractional shares, ETFs, we also have robo-accounts and cryptocurrency. Each one of them generates revenue in a variety of different ways, but it is largely tied to some level of assets under management and the activity against those assets under management.

And as you bring on a new account, and that account funds the AUM, that account starts to grow over time. And so today, we're continuing to see really strong cohort trends in AUM, driving to those long-term benchmarks, but we're still very early because we're growing so fast at triple-digits, so we're not at the AUM levels per account that others would be at a steady state because we're adding so many new accounts that have to go through that transition of funding and building assets, etc.

In addition to the AUM build, we're not monetizing all the AUM the way others have, and we will over time. For example, we currently do not have margin, nor do we have options in the single stock area.

The ETF business, two of our ETFs are no-load ETFs, the rest do generate fees and we're seeing nice trends in our AUM there as well. And robo-accounts have a very similar profile to that. In cryptocurrency, we do actually generate commissions or fees off of cryptocurrency based on trading activity.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

And so, it's still very early days in AUM per account, in addition to new revenue streams against the AUM in Invest. We are seeing obviously a big acceleration there, 2.5X versus Q2 in total revenue, but there's still a lot of room to go per account.

For SoFi Money, today we primarily generate revenue in interchange. There's not much NIM in that business today, given where rates are. As we become a bank, there will be a big opportunity in SoFi Money to generate not just interchange, but even in this rate environment, a pretty healthy type of NIM margin, based on the ability of using insured deposits to fund our lending business.

And that would be attributed to the bank and to the SoFi Money business. And so, we're very early days in that product as well as it relates to deposits per account and spending levels, but seeing the nice trends that you would see over time.

And then, the other element of SoFi Money that's really important is driving direct deposit growth, and we're seeing triple-digit growth year over year in direct deposits, and that's accelerated for the last few quarters.

As we drive a higher percentage of direct deposits, it drives more deposits into the account, drives more spending and drives the overall economics of the business directly in revenue, but it also has a big indirect benefit.

And the indirect benefit is that when we have a primary account through direct deposit, we see what bills are being paid, especially loans like student loans or mortgages, and we can use that information to provide compelling offers to our members.

In addition to that information, we also can see how much they're spending, whether they're able to save money and when they're investing that money, whether overspending and they run to a deficit, and we can help them potentially refinance some of the revolving rate debt.

And so that's how we think about the SoFi money business and SoFi credit card we've launched in the fall of last year, it's off to a really strong start. It's a very unique value proposition, we tailored it specifically for our members, and they get twice the reward points, if they redeem into cryptocurrency, if they redeem it to stocks, or to invest, generally, they get double the reward points, if they redeem it into Money or into our lending products. So we're really encouraged by that.

And then Lantern, which is a price comparison platform, benefits in a couple of ways. It benefits from the demand that we get to SoFi for loans, and if a SoFi applicant gets turned down by our credit model, and they're open to an affiliate offer, we can monetize that offer through our platform and Lantern partnerships there.

And the same with other types of products as it relates to applicants on SoFi or just those looking for different financial services products that we don't have at SoFi but we do have through Lantern, like small and medium business, and we're seeing a nice ramp in that as well. So really good trends across all the businesses, but it's super early days in terms of monetization.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Dominick Gabriele: Excellent. And maybe just one last one on the competitive landscape. Maybe you could talk to how the competitive landscape for the various products within the financial services segment has perhaps changed over the last year, and how SoFi continues to position themselves against some of the peers in the market, as some other companies have come public, some M&A has happened?

When you think about the long-term positioning of the company, maybe you could talk to your competitive advantages when you go to market? Thanks so much, I really appreciate it.

Anthony Noto: The biggest competitive advantage we have is that we have a superior lifetime value. We have that superior lifetime value for a couple of factors. First and foremost, we're a one-stop shop, and so we're building best-of-breed products. So when someone needs a product, we're there for them, whether that's a big financial decision, or something that they're going to do on a daily basis.

And when they use that first product, we build trust and reliability of them, so then when they want to use a second product, we're there for them. When that happens, not only do we generate more revenue from that relationship, but we have compounding profitability benefits because we're not paying a second customer acquisition cost.

So in our loan business as an example, we've had variable profit in the range of $800. When that product gets cross-bought that $800 doubles, which we outlined in our management presentation during the roadshow, because we're not incurring a second acquisition cost.

That lifetime value is really unmatched by any of our competitors set because, one, they don't have the range of products that we have and, two, many are not in the lending business.

And because we have that superior lifetime value, we can then reinvest the excess profit compared to our competitors in better rates, better prices, no fees, better service, better selection, and it just drives the overall flywheel of our business.

And when we say we're seeing an inflection point there, we are seeing the benefits of it across lower customer acquisition costs, lower sales and marketing as a percentage of revenue overall. And as you saw, significant acceleration in the number of products we have and the number of members that we have.

In terms of the competitive landscape, no one else is really doing it. Everyone's talked about it. I arrived in January 2018, we talked about our strategy, others have talked about trying to become a one-stop shop, but no one's gotten there. And there are a lot of reasons for it, but our team has really executed and blitz-scaled our way to the point that we have this one-stop shop with this range of products, and we'll continue to add to it.

Our biggest competitive concern continues to focus on the 500 million accounts that are tied to legacy FDIC banks. We see that as the huge opportunity, and that's what we're going after. We want the tide of digital frontier companies to continue to rise, and all the boats to rise with us, but we see that market share coming from the legacy players.

Dominick Gabriele: Thanks.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Anthony Noto: Next question, please.

Operator: The next question comes from Robert Napoli of William Blair. Robert, the line is yours.

Robert Napoli: Thank you. Good afternoon, Anthony, thank you for the question. I'd maybe like to dig in a little bit more into Galileo. The 36 million to 79 million accounts. What is the mix of that business? I know you have a big bank, neobank business, if you would, but what is the mix of those accounts? And are there any concerns with your strategy, your banking strategy, you essentially could be competing with some of those customers of Galileo's?

Anthony Noto: Yes, the vast majority of the partnerships are what we would call business-to-consumer relationships. There are business-to-business relationships, where we're providing payment capabilities to non-consumer-facing businesses, and increasingly we have more of what we call enterprises coming to us looking for digital payment capabilities, both in the USA as well as LatAm.

And we've really had great success in Mexico, we'll expand into other LatAm countries, and the LatAm market, there is an opportunity, not just in B2C, but it's pretty wide open as it relates to enterprise and different areas like buy-now-pay-later and supplier payments, etc.

Increasingly this year, we have seen more of that activity in the US as well. Of the accounts that I mentioned that we've signed so far in the second quarter, we'd signed 22 in the first half of the year, five of them in the second quarter were non-B2C, they were focused on enterprise or on different types of currency payments.

As it relates to the longer-term growth of that business, there's an opportunity for us to continue to expand products beyond just debit and ACH payments, in addition to other functionality. We're not going to share our pipeline publicly, but there's a fair amount of additional products we can add to our existing partnerships, in addition to bringing on new partners.

In terms of the competitive environment, we haven't lost any of our major partners. There was one partner that announced they'd be moving off of Galileo well before we acquired the company several years ago. That's the only large player that has transitioned off the platform, and that was happening over the last year and a half, and really hasn't had any impact on anything that we've talked about.

So we've been able to maintain all of our partnerships, and the relationships are pretty sticky, and as long as we continue to build more value for our partners than they can build on their own with someone else, we'll maintain those partners. And our focus is on making sure our partners have the best NPS score with their customers they could possibly have, so they do want to continue to partner with us.

Robert Napoli: Thank you. And then, just a follow up, is M&A an important part of your strategy, going forward? You have a decent amount of capital. And if so, what areas would you look to add, geographically or different products or technology?

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Anthony Noto: We're going to be, first and foremost, great stewards of capital, and be very prudent in how we deploy it, whether it's against funding our businesses, or reinvesting in growth or an M&A. So I want to make that point upfront.

M&A has been incredibly valuable and strategic for the direct-to-consumer technology business for the last few decades. We've seen tremendous value generated through M&A. If you look at eBay's purchase of PayPal, Google's purchase of Android or DoubleClick or YouTube, Expedia's purchase of TripAdvisor or Priceline's purchase of Bookings.com. I can give you example after example of how tens of billions of dollars of value are created from acquisitions in the $100 million or $1 billion dollar range.

And I think our acquisition of Galileo will prove out to be that similar type of huge strategic value. The way we think about M&A prioritization is we're a big believer in vertical integration. It gives us the ability to be agile and deploy technology and innovation faster than anyone else, and makes us a low-cost operator. In addition to that, it allows us to create ancillary additional revenue streams that help fund the technology investments for the industry and makes the industry better.

We are vertically integrated in loans. It's proven to be a great competitive advantage with the really high variable profit margins that we disclosed to you that have been 40% to 50% since 2018, as we focused on quality and really driving the per unit economics.

Within our financial services businesses, the acquisition of Galileo allows us to vertically integrate with SoFi Money, and that provides us all the advantages of being able to innovate faster at lower costs and help the whole industry become more reliable, more stable and more trustworthy, which will accelerate the transition from traditional banks to new digital frontier banks.

Our credit card business will be vertically integrated as well because of the acquisition of Galileo and our plans there. It would be in our interest to vertically integrate some of our other businesses so we're prioritizing that, looking at those opportunities.

From a horizontal standpoint, we largely would look outside the United States for horizontal opportunities. One example of that is SoFi Hong Kong. We bought a small company. We bought a company in Hong Kong that had a great management team, that had deployed an invest product globally previously. They had a really strong technology team, they had licenses. We paid a small dollar amount. We've been able to more than double the AUM of our SoFi Hong Kong business and since then we used that to then expand with Invest to other areas within Asia.

And then internationally for Galileo, we're primarily focused on LATAM. The competitive environment there is really one where we're taking the lion's share of the opportunities and we see a huge amount of opportunity, not just what we've achieved in Mexico but in other markets there. But there could be opportunities to accelerate that through M&A also.

Dominick Gabriele: Thank you, really appreciate it.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

Anthony Noto: Thank you.

Operator: Our next question comes from Tim of Wells Fargo. He's redacted his question. Our next question is a follow-up from Sean Horgan of Rosenblatt Securities. Sean, the line is yours.

Sean Horgan: Hey guys, thanks for taking my follow-up. So I wanted to ask a couple on crypto. Some of your peers have seen a lot of success monetizing and driving this engagement with crypto trading but particularly interested in the crypto rewards I think. We're starting to see it pop up more and more but it's something that I think intuitively would drive a lot of the same behaviors so if you could talk about any of the early feedback there. And then any aspirations to move into a decentralized product like earning yield on a crypto balance.

Anthony Noto: Yes, thank you, Sean. The way we drive our innovation, which I alluded to in my opening remarks, is we really listen to our members and we try to, our product development is member-centric, not product-centric. And when we're designing the SoFi Invest product, we asked our members what assets they wanted. We want to differentiate on selection.

And one of the most requested assets was cryptocurrency and there's no product debate at SoFi whether or not that was appropriate for members and whether it should be on the platform. And our view is that we want to educate our members about the volatility of cryptocurrency, about the risk of cryptocurrency which we do every time they put it in a buy order. But it's clearly an asset that they want and we are providing and that's why we've added continued selection in cryptocurrency.

The concept of our rewards program is a great example of how not only do we have a one-stop-shop, but an example of how we can make our products work better when you use them together. And so our rewards platform, for those who are not familiar, is not just rewards when we launch credit cards. We built a platform that allows us to trigger rewards off of any activity you do on SoFi. Whatever our general managers, our product team, our marketing team want to trigger rewards off of that they can fund, they can trigger rewards.

So today, you do get rewards when you use your credit card, but we allow you to redeem them into other products. And so one idea we had was not just to redeem it to cash. Let's double the rewards and then redeem into SoFi Money out of the credit card or double them when they redeem into their loan and make principal payments or double them when they go into an Invest product.

And when we first did it for Invest, we didn't include cryptocurrency and our members wanted it in cryptocurrency so we let them redeem their points into cryptocurrency. And after doing that, it quickly became the top three most popular redemption option of all of our products, and a great example of how our products can be better when they're used together.

Another example of that is we just launched in personal loans, when you apply, you'll get an interest rate if you get approved, that's X. But if you're willing to do direct deposit with us, that interest rate will be lower than that. And that helps the person that's getting the loan get a better price. It helps us build a primary relationship with them because there's more data to help them get their money right and so you'll continue to see this scene play itself out.

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

We're not just going to build best of breed products by themselves, we're going to make them better when they're used together which will be really hard for others to replicate. And cryptocurrency is a perfect example of that.

In terms of de-privatised products, just to answer that question, we're constantly challenging ourselves to add selection in all the ways that you can think of so it's actually something that we're keen to evaluate.

Sean Horgan: Okay, great, thank you. And maybe one modelling question for Chris. Can you just walk us through the EPS number and clarify how to get there?

Chris Lapointe: Yes, sure, happy to Sean, and thanks for the question. So in terms of our overall net income, we had losses of about $165 million. What's important to call out though is that embedded in that number are non-cash items related to stock-based compensation as well as the fair market value changes to warrant attributable to our business combination with Social Capital. In addition to those non-cash items, there are one-time transaction expenses related to the business combination with Social Capital as well.

In total, those three numbers total about $144 million of non-cash and one-time expenses. If you were to exclude those numbers from our net income losses, net income losses would've been closer to $21 million and the EPS would've been closer to 5.8 cents of losses per share.

Sean Horgan: Perfect, thank you.

Chris Lapointe: Thank you, Sean.

Anthony Noto: Operator, I think we have time for one last question.

Operator: Our next question comes from Moshe Orenbuch of Credit Suisse. Moshe, please go ahead.

Moshe Orenbuch: Great, thanks for getting me under the wire. I'm just wondering if you could talk a little bit, given particularly the growth and success both in mortgage and personal lending, how to think about the efficiency of your marketing spend. Is it getting better? Is it getting worse? And what's implied in the forecast over time and what have you seen in the recent results as we look towards that?

Anthony Noto: Yes, we've definitely seen efficiency in overall company and marketing spend. We saw meaningful year over year decline in sales and marketing as a percent of revenue, which is obviously in our reported result. That's at the aggregate level.

Within the personal loans business, our marketing expense per new loan also came down meaningfully on a sequential basis, benefitting from cross-buying and benefiting from better data utilization and better pricing. But we saw meaningful step-down on the marketing on a prolonged basis for personal loans.

Home loans has been the gold standard of cross-buying as we shared in our roadshow documents and our earlier disclosures. We've been in the mid-60 to high-60 to 70% range each quarter for the percentage of our home loans bought by our existing members and that hasn't changed. When you have that high of a percentage, two-thirds of

SoFi Q2 2021 Earnings Conference Call

Thursday, 12 August 2021

the home loans bought by the existing members, there are great marketing efficiencies relative to other products that don't have that level of cross-buying so it's been a huge benefit.

The home loan business will go through a cycle, personal loans will go through the cycle but we've had great efficiencies in home loans and improving efficiencies in personal loans. And we're really encouraged about our long-term CAC, relative to our long-term margins of 30% and we're on track to deliver that.

Great, well operator, I'd like to end the call with a few closing remarks and thank everyone for joining us on our first conference call as a public company. I'll close now by emphasizing how critical our team is to our success and the importance of building a durable culture of diversity and a place people love to work. At SoFi, our products and service is digital, there's no storefront to walk into or teller at a window to meet. Without technology, our service does not exist, but more critically important is our people.

There's a saying I heard 30-plus years ago that I'd love to repeat. The tanks don't roll, the planes don't fly, and the ships don't sail without the people. Our people are our number one critical success factor because they build the technology and our services keystroke by keystroke, data point by data point, iteration by iteration, step by step that turns our vision into a real impact in our member's lives. I could not be more thankful for the people of SoFi for their resilience, their grit, and most importantly, their passion to impact our member's lives in profound ways. Until we chat again on Q3, take care and be safe. Thank you for joining us.