Transcript

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SoFi Acquisition of Technisys Conference Call

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Andrea: Thank you. And thanks everyone for joining us today. We are here to talk about our recent announcement to acquire Technisys, and our CEO, Anthony Noto will share some prepared remarks at the beginning, and our CFO, Chris Lapointe will join him for open Q&A at the end. Anthony, over to you.

Anthony Noto: Thank you, Andrea. I'm thrilled to talk to you today about this morning's exciting announcement. Before I do, please note that any figures referenced are as of our last earnings release for the third quarter, 2021. Our fourth quarter and fiscal year 2021 earnings call will take place post-market close on March 1st. We will not be addressing any matters or answer any questions relating to fourth quarter or fiscal year 2021 earnings on this call. As you've read by now, SoFi technologies has agreed to acquire Technisys in an all-stock transaction for an aggregate consideration of approximately 84 million shares of SoFi common stock, subject to working capital and other closing adjustments.

This transaction is valued at approximately $1.1 billion, based on a 20 day volume-weighted average price per SoFi share of $13.08 cents as of February 15th, 2022. With Technisys, we're acquiring a rare strategic asset and an attractive business that we believe is the best next generation technology, and one that every financial services company, old and new, will ultimately need in order to keep pace with the rate of innovation that an extensible multi-product core can provide. Technisys provide a critical strategic capability for both SoFi on its mission to build best-of-breed products as a one-stop-shop for financial services products, and Galileo in our overall pursuit of building the AWS of FinTech.

It will add to Galileo and Technisys' revenue growth and accelerate the three year compound annual growth rate of the combined businesses, via a cross monetization of their complimentary existing installed bases. As important, it will create new revenue growth from a collaborative go-to-market effort in their combined markets of the US and LatAm. Together, Technisys and Galileo will be the only company that offers an extensible, customizable multi-product core financial platform with UX and UI development capabilities, plus payment processing in one stack. The estimated incremental revenue, including base Technisys revenue and revenue synergies of the vertically integrated capabilities is expected to add between $500 to $800 million cumulatively through year end 2025, with high incremental margins.

Additionally, the core SoFi business is expected to realize substantial cost synergies, which we approximate at $75 to $85 million through year end 2025, and $60 to $70 million annually thereafter, as we move SoFi checking and savings and SoFi's credit card businesses off of two different older third-party core providers over the next two to four years to our single-owned and operated vertically integrated Technisys platform. Put simply, we believe that every multi-product financial services company will need to transition off of older banking cores to cloud native multi-product cores like that of Technisys, or risk being left behind, unable to innovate sufficiently. Look no further than JP Morgan's decision to make this transition via Thought Machine, and Fiserv's acquisition of Finxact for further evidence of this point.

When I say every financial services company, I'm referring to legacy incumbent banks, existing fintechs, neobanks and others. Importantly, Technisys will give us an even greater strategic advantage in allowing SoFi and its technology partners to innovate faster at a lower cost across our products. It will increase SoFi's ability to build best-of-breed products via one banking core that enables faster real time decisioning, more personalization, and a platform to build new products. We expect to be able to use one core for a broad range of existing and new products, from deposit to checking, to lending to credit card, and other new products to come, all surfaced via industry-leading APIs to SoFi members, as well as Galileo's 100 partners connecting more than 89 million customer accounts.

Before I go into more detail on the benefits this acquisition brings to SoFi, our members and the FinTech industry at large, let me take a step back and put in a broad context of Sofi's mission, points of difference and strategy. SoFi's mission is to help people achieve financial independence so they can realize their ambitions. Financial independence does not mean being rich. It means having enough money to achieve what you want. That could be owning a home, having a certain size family or career, or a certain location where you want to live, or when you want to retire. Many people in the United States are struggling to live the American dream. They have done incredibly well both academically and professionally and earn above average household income. By no means are they rich. Despite all their success, they're struggling to reach the point where they have enough money to do what they want.

At SoFi we believe there's an opportunity to build lifetime relationships and be there for every major financial decision in people's lives and all the days in between, so that they actually have a chance to achieve their long term goal of having enough money to do what they want. In order for us to do that, we have to help our members borrow better, save better, spend better, invest better and protect better. We can't just do one. We have to be there when they're buying a house to ensure they don't overleverage themselves, and when they're thinking about financing their college education so they don't take out more debt than they can pay off in their lifetime. In their 20's when they have excess money in their checking account, earning little or no return, to remind them they should be compounding their investments every decade of their lives.

When they overspend and max out their credit cards, which they should refinance into lower rate installment products, paid on a termed basis. We should be there when they're making big family, lifestyle and career decisions, and we must provide not only the products and services, but also member relationships and services with certified financial planners. To accomplish our mission, we deploy our financial services productivity loop strategy. The FSPL strategy has three key elements, all of which are enhanced by the benefits of this acquisition. First is building a one-stop-shop where each product is best-of-breed, which increases our ability to build trust and reliability, so we win the next product and the next product and the next product. Second is driving superior unit economics in each of our products, which reinforces our ability to drive even more valuable products. And third is building the AWS of FinTech by leveraging the infrastructure that we have built into our business via Galileo, our FinTech platform, with attractive returns that we can reinvest in more innovation and more valuable products and services.

I'm going to take these one by one. The first element is that in order for us to win by leveraging the FSPL in our one-stop-shop strategy, each product we build has to be best-of-breed, so we tirelessly look to differentiate our products on four factors, fast, selection, content and convenience. And then we want all of our products to work better when they're used together. Why is this important? It's critically important that every time someone chooses a SoFi product, that we build a relationship of trust and reliability, so when they need a second product or a third product, they choose SoFi. And when they do pick us for another product, our revenue per customer increases meaningfully, and we do not have a large second customer acquisition cost, which in turn moves us to our goal of having the highest lifetime value in the industry.

The highest lifetime value will be a competitive advantage as it allows us to give the best interest rates on loans, the best interest rates on checking, the best services for our members, the best selection and the fastest capabilities. And that will allow us to drive more utilization of our service, which will help us drive our members to help them get their money right. The more data we have about them, the more we can personalize and the more we can help our members. Vertically integrating with Technisys will directly improve the first critical success factor of our strategy in building our best-of-breed products through faster innovation, more realtime decisioning, and increased personalization, in addition to making our products work better when used together.

The second element of our strategy is driving superior unit economics. Vertical integration helps drive towards superior unit economics. We see that in Lending where we've built an end-to-end process that allows us to offer the best experience, the fastest place to fund a loan. It also allows us to give very competitive interest rates to have the best unit economics per loan. All a function of our end-to-end integration. It allows us to iterate faster, have more data and deliver better services and products. If each of our products has superior economics, then we can, again, reinvest in better rates, better features, faster and more selection. Our acquisition of Galileo allowed us to begin vertically integrating SoFi money. With Technisys we can further vertically integrate into checking and savings, but also credit cards and other future products. Importantly, all in the same stack versus today, where we have different cores for each product, which is cumbersome, inefficient and costly.

And third is building our tech platform in line with our vision of building the AWS of FinTech. We bought Galileo because we fundamentally believed we needed to replicate the end-to-end integration of our Lending business in our checking and savings business, and it has in fact allowed us to innovate faster at lower cost. But Galileo is also a great business on its own, and as we drive innovation at SoFi, we also drive innovation at Galileo. We want to create more value for Galileo's partners than they can create on their own or with someone else, and in doing so, we will help the industry serve all people better. Our investment in our tech platform raises the tide for all companies and for consumers overall, which will drive more adoption for the industry in which we participate.

Strategically, Technisys is a critical step forward in positioning SoFi to improve all three core elements of our FSPL strategy. Best-of-breed products with superior unit economics and an investment in technology as we build the AWS of FinTech that is also driving attractive returns as a business. There are many anticipated synergies to point to from the planned combination of the companies that result of our strategy. I'd like to highlight four of them. First, Technisys' Cyberbank platform is strategically critical for SoFi banking, credit card and other new products. SoFi currently uses third-party banking core and ledger for checking and savings. SoFi's credit card is on an entirely different separate core and ledger as well.

As we considered moving to a more modern banking cloud native architecture for checking and savings to ensure we could continue to scale our strategy of best-of-breed products with superior unit economics, we realized the strategic importance of having one cloud-based core integrated with processing. After evaluating several potential choices, including building our own, we concluded that buying Technisys was the best strategic choice as it uniquely is extensible, customizable, and supports multiple products in one core, and like Galileo, it's an attractive, fast growing business. We expect that both SoFi checking and savings and SoFi credit card will migrate to Technisys' core platform in the next two to four years. This move will advance SoFi's better together strategy by enabling faster innovation, more realtime decisioning, and a high degree of personalization.

The move is also expected to save $75 to $85 million cumulatively through year end 2025, and $60 to $70 million annually thereafter. The acquisition allows SoFi to expand its lead as a one-stop super app by migrating to one core, and new products from SoFi will be built day one on Technisys. Second synergy, we will gain synergies by selling Technisys to Galileo's existing 100 plus partners and their 89 million enabled accounts. In evaluating SoFi's needs we concluded that many Galileo partners would also need an extensible customizable multi-core product. The vast majority of Galileo's existing partners want to offer lending, credit cards, rewards, and many other products, but they can't extend their current core. Building separate cores for new products risks the same siloed issues we see in legacy banks, and architecturally would be a step backwards. Expanding from one to many products, these partners will also need to migrate to a multi-product core like Technisys. As important, vertically integrating their multi-core and processing into one stack with one partner should provide companies a technology and data strategic advantage as well as substantial cost savings.

Additionally, Technisys' Cyberbank platform is cloud native and supports the integration of third-party technologies via Technisys' marketplace. This allows greater flexibility to integrate critical partners like Plaid, Twilio, DocuSign, Salesforce, Zendesk, Okta, credit bureaus, marketing technology, payroll providers, just to name a few. Galileo plans to build new products on top of Technisys' multi-product core to help customers expand outside of deposit accounts and debit cards, including secured and unsecured credit cards, rewards, and lending as a service, just to name a few. In fact, Galileo is already a Technisys customer, having begun building a lending as a service offering for its partners on Technisys' core.

The third synergy. Galileo will benefit by selling into Technisys' customer base, and it will appeal to a broader array of new customers. Technisys has 60 plus partners spanning traditional banks, neobanks and non-financial brand companies. Galileo can leverage these existing relationships to offer processing in the many new products in the development pipeline. Having full stack capabilities from UX/UI development capabilities to an extensible multi-product core and processing will help Galileo to drive growth beyond a leading position with neobanks into new segments, including established banks, non-financial brand companies, and even greater appeal to enterprise companies.

The fourth synergy is Technisys and Galileo are expected to realize synergies by going to market together to drive new partners adoption and leverage each other's strengths in complimentary geographies. We believe the combination of Galileo and Technisys in one complete stack will unlock entirely new customer wins in a joint go to market strategy to further penetrate established banks, FinTech companies, non-financial brands and enterprises. In addition to the combined offering being more differentiated to serve all segments, both companies will leverage the scale of each other's strongest markets that are complementary. The combined company will add 12 markets of operation for a total of 16 countries. Technisys' revenue is largely derived from LatAm markets, with a recent number of US based companies adopting its technology. While Galileo's strength is primarily in the US with emerging success in Mexico and now Colombia. So we're super excited about the opportunity to continue executing on our overall strategy and the benefits that Technisys provides for that strategy.

In summary, the transaction strengthens SoFi's ability to execute our FSPL strategy to build best of breed products with superior unit economics, while building an even more robust technology platform on a path to creating the AWS of FinTech. The transaction will drive attractive returns by adding to SoFi's revenue growth rate and driving an acceleration of our three year revenue CAGR by contributing five hundred to eight hundred million dollars in expected incremental cumulative revenue through year end 2025, and second post transition to one core and expected 75 to 85 million dollars in cumulative cost save through year end 2025 and 60 to 70 million dollars annually thereafter. With that, we'd like to take your questions.

Operator: Thank you. If you have a question for today's speakers, please press star one on your telephone keypad to register a question. And if you change your mind, please dial star two to cancel that request. Please ensure that your phone is unmuted locally when you are preparing to ask a question. And our first question is from Michael Perito from KBW. Michael, I will open your line now, if you'd like to proceed with your question.

Michael Perito: Hi everyone. Good morning. Thanks for taking my questions. I wanted to start just on, I was wondering if you guys can spend a minute, just a little bit more on the competitive dynamics here and if there is any overlap between Galileo and Technisys? Just wondering if they were coming up on the same customers, previously separate entities and if there is any customer overlap once the deal closes that should be considered?

Anthony Noto: Yeah. Let me address that, and if you have a second follow up. So there was no competitive overlap between Technisys and Galileo, they're complementary technologies. Galileo primarily offers process of debit and ACH processing as a service, as well as a broad array of APIs that allows partners to seamlessly build a UX/UI on top of those APIs across all the functionality some would need for either a neobank or enterprise payment solution. You know, we have many well known companies on both the neobank side, as well as enterprise side. We were looking on the SoFi side of the business for a longer term solution that will allow us combine our cores and to combine into one ledger. Having that information in one stack, in one core, and one ledger just makes the ability to innovate much faster at a lower cost and to drive more personalization and real time decisioning.

And when we found Technisys, we also looked at all of the other companies that it competes with, and we believed it was the most unique and at the right price with the same philosophical outlook and strategy. In addition to the fact that it had highly complementary geographies relative to what we're prioritizing. And that, and the need of the Galileo partners to also need multi-product core, is what led us to first actually looking at just a commercial deal, then a minority investment. And then realizing just like we did with Galileo after we started integrating, we should really own this technology because we can drive more value for the industry and for SoFi shareholders if we have this end to end full stack that noone else has. In terms of the process itself being competitive, this was just a one-on-one dialogue over many, many months that resulted in the acquisition. And there was never a competitive process as it relates to other companies coming in.

Michael Perito: That's helpful Anthony. Thanks. And then just for follow up, you guys mentioned the direction of the incumbent financial services industry from a tech perspective, moving to cloud based providers, which I think certainly seems to be the case. But I was curious if you could maybe take it another layer down in terms of what assumptions you're making to reach that five to 800 million cumulative revenue growth target. While I think directionally I see that vision as you guys laid it out, when you talk to a lot of the incumbent institutions themselves, it's a long sale cycle on the core side, right? I mean, most of these guys are in contracts for multiple years. You know, most of them don't seem intent on moving anytime soon and more focused on kind of front end capability. Just curious, what type of new customer growth assumptions you guys baked in and how you kind of factored in that sale cycle to the 500, 800 million revenue target.

Anthony Noto: Sure. The plan was built bottoms up by our combined Galileo and Technisys teams. They both have very large installed bases. So the assumptions for the synergies for each of their respective installed bases are relatively conservative. You know, our goal is to actually exceed our expectations, but it's going through customer by customer and working with the underlying relationship manager and the revenue team and products team to understand what percentage of them will need this technology sooner versus later, and what we could convert. As you'd imagine, a lot of the revenue synergies come in later years, not in 2022, although there will be some synergies in 2022 because of the lead cycles. But also this is a big decision for many companies and they don't want to take their eye off the ball and drive in growth.

But we do believe that the installed bases will be a primary source of the incremental revenue and synergies, but we also believe as we see every day from all the inbound requests that we have at Galileo, there's just a substantial number of people looking to transition an existing customer base to an entirely new stack. And that doesn't necessarily have as much of a long lead time because they're primarily enabling new partners or new customers to come onto the new stack, and then over time will migrate others. So as you can imagine, it's not heavily weighted to the first or second year. It's more weighted to the outer years, but there absolutely is synergies in the first couple years.

Michael Perito: All right, just to make sure I'm reading that all correctly. So basically there are synergies near term and obviously you guys continue to expect Galileo to grow it's business, particularly after the investments you're making. But it's reasonable to think that any kind of revenue synergies that are kind of earmarked for new customer growth, those would be more back end loaded as the sale and implementation cycle on that could theoretically be almost a year, if not longer in some cases. Is that correct?

Anthony Noto: Yeah. The revenue synergies start slow in '22 and then ramp in the outer years. One of the reasons we've made the statement that this adds to the revenue growth of Galileo and Technisys is to make it clear that it's incremental on this synergy side. And then secondarily that it's a faster growth rate. So it's not just more revenue dollars over the next three years, it's also a faster growth rate. And then we gave you the aggregate numbers over 2025. And I want to separate out revenue from cost saves. On the cost save side, that's something that won't kick in until probably 2023, '24, '25, and maybe closer to '24 because that's a hundred percent from transitioning SoFi checking and savings and SoFi credit card off of third party providers. And so we know the cost expected there at that level of scale. So that's very visible, but we're not going to turn and do that tomorrow. We're going to do that in a structured way, methodically. And that really starts to kick in '24 and '25.

Michael Perito: Got it. Okay. Thank you very much. Appreciate it.

Anthony Noto: You're welcome.

Operator: Thank you. And our next question is from Jeff Adelson from Morgan Stanley. Jeff, your line will be open now if you'd like to proceed with your question.

Jeff Adelson: Hi, good morning Anthony. Thanks for taking the call today. Just wanted to follow up on the mid teens ROI on a stand alone basis through 2025. Just wanted to understand what specifically is going into those numbers. It sounds like that completely excludes any of the anticipated revenue synergies you're discussing here. And should we be thinking about that based on the 1.1 billion? So implying something like 140 to 200 million of EBITDA or pre tax income, just wanted to get a little bit more color on that.

Anthony Noto: Sure. Chris Lapointe, our CFO is on the call, I'll let him address the question.

Chris Lapointe: Sure. Hey Jeff, how are you? So the way that we calculated the illustrative returns analysis is by looking at a projected unleveraged free cash flows for the business. We did include the 1.1 billion as the purchase price and then we applied a market median EBITDA multiple to a EBITDA as of 2025 and calculated the return to be in the mid teens.

Jeff Adelson: Got you. And then just as we think about the 60 to 70 million of cost saves beyond 2025, when investors are talking about this, they're looking at your directly attributable expenses today of about, call it 240 million. Should we be thinking about the cost savings relative to Galileo today or more the entire company? And just more specifically, it sounds like most of the cost savings are going to just come from integrating the platforms. Are you just going to be reducing the SoFi, Galileo banking tech expense, or where else could that be coming from as well?

Anthony Noto: Chris, why don't you take that as well?

Chris Lapointe: Sure. In terms of the cost saves, what's contemplated there is the third party cost that we're currently paying for our SoFi checking and savings, as well as our SoFi credit card. And as an Anthony mentioned, those will start to be realized in '24 and '25. And we have pretty clear line of sight into those cost saves, given the contracted amounts that we're paying today. So this is primarily reduction of the costs that we're paying to third parties.

Jeff Adelson: And then just one last from me. Just in terms of the Technisys client base, I know you were saying there's no overlap today. Could you maybe just give us a little bit more color into maybe the size of those clients, where most of them are based, how quickly that's growing? I mean, just at a high level, looking at this, it seems like it's mostly a combination of newer banks and FinTech in the Latam area. Just maybe help us understand that a little bit better.

Anthony Noto: Yeah. Chris can chime in as well. But the first thing I want to dissuade is that Technisys is not just enabling neobanks and new players. They have large economic relationships with large banks in these different markets. As an example, Banco Macro is an established bank in Argentina. That's a large longstanding relationship. And there are a number of other established banks in the top 15 customers. And when you look across their customer base, the percentage of what I would say is their established banks versus digital banks is sort of easily weighted in the top, as you look at the top 15 customers that are driving substantial amount of revenue. In addition to that, they also enable large consumer brands that are not financial institutions, but that want to provide financial services products. Which we also see as a big opportunity.

One of the things that we think that Technisys and Galileo together can do is to penetrate the established banks in the United States that are regional community banks and credit union that do not have the technology expertise and scale of technology talent. And since this is a full stop capability from building the app itself, which is what we refer to as UX and UI development capabilities, to processing as well as the core banking technology, as well as the ledger, it's a solution that will really appeal to them. Where in the past, they would've had to stitch together three or four partners to try to build a innovative digital product to capture the needs of their customers. So the two companies have very much complementary segments as it relates to geographic coverage, as well as types of banks and neobanks that they're supporting. And Chris if you'd add anything else, go ahead.

Chris Lapointe: Nope, nothing else. Yeah.

Jeff Adelson: And if I may just follow up real quick on that last comment. You were talking about the regional banks in the US. I know you mentioned earlier on the call on how you want to help your Galileo clients do more on the lending side, launch more services there. What specifically might be the use case for some of these regional banks, smaller banks in the US? Is it more the payment side? Would it be replacing more of their tech stack or just maybe dive a little bit more in there?

Anthony Noto: Yeah, the best way to think about it is 50% of people that are surveyed say they want to have a physical bank within one mile of their home. And you know, SoFi's not going to build out branches. We're going to address the other 50% that wants a digital complete solution, one stop shop. And that's a huge market by itself. But the other 50% that do want a bank within one mile of their home, that are using regional banks and community banks and credit union, they're not getting a great digital product. And if we've learned anything from the last two years is every financial institution has to have a digital product where people don't physically need to go to that entity. And if you're a small community bank or regional bank or credit union, you just don't have the technical chops inside your company to build out what SoFi's built out or some of the other neobank companies have built out. So many of them over time have come to us and said, "Can you build us a white label, end-to-end experience like you have for SoFi?" We had pieces of that before, but now we have the whole end-to-end stack and we could better meet their needs and give them a turnkey solution. They need to do so or they're going to lose to others that are building out a digital product. What I see happening is that it will be a different technology stack. What they use today is an aggregation of many different tech providers, including different processors in the solution that's not going to compete with larger companies that have larger technology capabilities.

Jeff Adelson: Great. Thanks, guys.

Operator: Thank you. Sorry, before we take our next question, could I just remind our participants to limit themselves to one question and one follow-up question? Then once you've had that, you can get back into the queue. Our next question is from Tim Chiodo from Credit Suisse. Tim, your line is now open if you'd like to proceed with your question.

Tim Chiodo: Great, thanks a lot. Good morning, everyone. I think you just touched on this a little bit, Anthony, but hopefully we can dig into it a little bit more. In terms of the traditional bank TAM expansion in the US, it seems like that's a big part of the story here. You talked about the core debit, credit, UX, UI. Is the idea to, for some of the banks, literally replace the full core banking system that they might be using, meaning going into much more direct competition with an FIS, a Fiserv, a Jack Henry, or is it to more be complimentary to those core banking systems that a lot of those traditional banks that you referenced are using?

Then my quick follow-up, I'll just squeeze it in now, is of the 500 to 800 million, how much that would you say roughly is related to traditional banking clients that you could get more penetration with over the coming years versus how much of that would be with more of a FinTech or a neobank-type of client?

Anthony Noto: Sure. On your first question, I just want to make sure that we give you a ranking. The biggest near-term revenue opportunities are going to be providing Technisys multi-product, customizable, extensible capabilities to the existing partners in the US and outside the US. Similarly, Galileo to Technisys partners outside the US. Large installed base of customers, as we mentioned on the call, Galileo has over 100 customers that Galileo is enabling 89 million accounts with, which is a large installed base. Bringing Technisys into that conversation with its full stack will create opportunities there in the near term.

Similarly, outside the United States, Galileo is already expanding and doing a great job of penetrating different countries, but now they'll be able to address multiple use more than the two countries that they're in. I would rank those two in the near term above the third, which is what you're referring to, which is entirely new partners. I think every large financial institution is going through the process of really trying to understand the technology solution they need for the long term. I think each of those entities will have a variety of different approaches. It will not be one size fits all. Some are looking at building entirely new stacks and onboarding new customers to them and not transitioning their existing customer bases too. Some recognize they have to bite the bullet in order to keep the customers that they currently have, they're going to need to transition them to a new stack, but it's not easily done. It has to be done methodically.

Since we've been at SoFi, we have moved from our original launch of SoFi Money that was on FIS over to Galileo, which is what led us to believe it was such a great acquisition for us. Then after moving over to Galileo, we had to build out the bank checking and savings account. We've actually made two major transitions of the SoFi Money and SoFi checking account with two different partners and two different regulatory bodies over the last four years.

In addition to that, at Galileo, we've built out a cloud environment that we're now transitioning existing partners, existing 89 million accounts, into the cloud, as well as onboarding new. I would just tell you, every has a different approach depending on what they're prioritizing. There's not one solution to everyone.

In terms of the forecast, I'll let Chris address the question.

Chris Lapointe: In terms of the forecast, what we anticipated in the long range is that of the 500 to 800 coming from traditional banks, it's about 60% and about 40% coming from FinTech.

Tim Chiodo: Very clear answer. Thanks a lot, both of you.

Chris Lapointe: Welcome.

Operator: Thank you very much, Tim. Our next question is from Mike Ng from Goldman Sachs. Mike, your line will be open now if you'd like to proceed with your question.

Mike Ng: Hey, good morning. Thank you very much for the question. I was wondering if you could talk a little bit more about the Technisys cyberbank business model. Is it primarily fee-based or transaction-based? Do you have any visibility into contracted revenue? Then secondly, I was just wondering if you could talk a little bit about the historical growth rate and any information you can give us about the future growth, assumed that $500 to $800 million cumulative revenue? Thank you very much.

Anthony Noto: Chris, go ahead.

Chris Lapointe: In terms of the overall business model, Technisys currently makes money in two primary ways right now. First is software licensing where the business makes money on a per-user or account basis. Typically, those contracts are three to five years in length. We have a pretty good line of sight into that portion of the revenue streams. Then the second portion is primarily software services, which is broken up into two components. One being Evolution Labs, which is primarily custom development that is done and dedicated on a contracted basis for a longer term period of time. Then the second is implementation fees, which are one time in nature.

In terms of your question about current growth. As we mentioned in the prepared remarks and the press release, the company is expected to do about $70 million of revenue on an IFRS basis, which is unaudited. That represents about a 24% growth rate in '21 versus 2020.

Mike Ng: Great. Thank you, Chris.

Operator: Thank you, Mike. Our next question is from Dan Dolev, from Mizuho. Dan, your line is now open if you'd like to proceed.

Dan Zoleb: Hi, guys. Congratulations, great job. I've got two quick questions. Can you maybe, if you could summarize the most important competitive advantage that this acquisition gives you versus your competitor? There's a bit of a, I would say a duopoly out there between Galileo and your competitors. Where do you think is that you one key competitive advantage that you have now that you didn't have before? Thank you. Then have a quick follow-up.

Anthony Noto: Well, the first thing I'd say is don't believe the hype. It's not a duopoly. There are many, many providers that we compete against every day with our Galileo processing as a service business. No one is more dominant than the rest. I would say it's a pretty level playing field. The competition is spread out among four to five players, not just one. In fact, I think the one you're referring to is also public and is probably the least competitive dynamic that we have across all the different companies that we compete on new deals with.

The best way to think about our competitive advantage is this. Most of the other processors do provide a core. Those cores are simplistic. They're not multi-product. Those that are multi-product, are not extensible into other new products that they may not have capabilities to. They're not customizable. One of the most important things that we liked about Technisys and what caused us to choose it over others, is the ability to customize it to the specific products that we're building.

When we first launched SoFi Money, I was sitting down with the team and going through the four differentiators of fast, selection, content and convenience, I kept saying, "Well, what about this feature? What about this functionality? What about this" the answer was, "No, they can't do it. No, they can't do it. No, they can't do it." Or, "You have to wait behind a long line," because it's not a self-serve, do-it-yourself type of environment.

Technisys allows us not only to leverage some known products that are out there that have been built out completely, it also provides primitives that allows its partners to customize new products to their specific needs and desires. It does it in a scalable way where they can do it themselves.

Now, a lot of people will make these types of comments before they've actually interacted with the partner, or in this case, the company we acquired. As I mentioned, Galileo is already a Technisys customer. We've already started building out lending as a service on top of Technisys with Galileo for our customers. We could not do that with other cores. They would either have had to build out the product themselves or you'd have to stand up a new core.

A couple of key things. First, it's cloud native. Not all are cloud native. Second, is customizable. Third, is the fact that it's extensible into other products that haven't even been considered today. Imagine a world in which we haven't heard of buy now pay later. All of a sudden, after building a core and partnering with somebody and building out the ledger, you're like, "Crap, I want to build buy now pay later." You go to your core processor provider and they're like, "Well, we don't have a core for buy now pay later. You're going to have to rent somebody else's. You're going to have to sign up with someone else that provides core technology."

Now all of a sudden, you have two different cores and two different ledgers. The information on the same customers are in two different places. You actually need a passport, as an analogy, for the data on one to talk to the data on the other. When it's in one unified core end-to-end stack with one ledger, you can make real time decisioning and offer people a better interest rate because they already used two customers with you or a faster money availability after they deposit a check because you have more information from a risk and fraud standpoint.

The biggest thing I would tell you to take away competitively is we have an end-to-end full stack that no one else has, that we're aware of, that is customizable and extensible at the core, in addition to the front end, in addition to the proven processing on the backend. When we compete now, we'll be competing with a full-stack solution, not a piece.

If you're a new neobank that just wants to launch with a debit and ACH card and you're looking at Galileo and other processors, we're going to say to you, "What's your future plan? Do you just want to be in debit and ACH?" Because if you do, we'll differentiate against the competitors on these factors. But if you have a vision of adding other products and services over time to grow your business, or even if you're not sure you want the optionality, we can be that partner for you for today on just debit and ACH and tomorrow on credit cards, and then lending as a service, a rewards economy product, a buy now pay later product, et cetera, et cetera.

Having that extensibility with us creates great optionality for you. If you don't recognize that, which many companies don't because they're not familiar with the technology, they're going to end up having multiple cores, multiple ledgers, and be like a traditional legacy bank and take a big architectural step backwards. Now, if they're really forward-thinking and saying, "Okay, I like the Technisys core, but I'm going to use a different processor because they're going to give me half a penny less in processing cost." Well, let me tell you something, that's a bad decision. Why? The vertical stack of the core with the processing, again, makes it more efficient to use information to make more personalized offerings to give people better real time offers, and quite frankly, a lower cost.

Dan Dolev: Got it. It makes a lot of sense. Thanks, Anthony. Then a quick follow-up. Just from a modeling perspective, I think I heard you say 70 million in mid-20's or low-20's growth. I know you gave us previously a 40% CAGR through 2025. Should we think about this as say kind of 1% to 2% incremental growth over time, just in terms of the order of magnitude?

Anthony Noto: Chris, do you want to address that?

Chris Lapointe: Yes. Yeah, I can take that, Dan. In terms of how you can think about the forward CAGR and what Anthony mentioned before is if you look at our original '22 to '25 CAGR forecast, this 500 to 800 million would add a few hundred basis points on top of that from a CAGR perspective.

Dan Dolev: Got it. It's incremental.

Chris Lapointe: Incremental, yes, on top of that.

Dan Dolev: I really appreciate it. Congrats again. Thank you, guys.

Operator: Thank you for your question, Dan. As a reminder, if you'd like to ask a question, please press star followed by one on your telephone keypad. Our next question is from Dominick Gabriele from Oppenheimer. Dominick, your line is now open. Please proceed.

Dominick Gabriele: Hey, thanks so much. I really appreciate the time. Just following up on one of the previous questions, you mentioned licensing fees, which could be a little lumpy over time. Is there a chance to actually convert some of these relationships to more Saas-based contracts as they come due? Then I just have a follow-up. Thanks.

Chris Lapointe: Yeah, on the licensing fees, what I mentioned, these historically were perpetual licenses. That comprised about 25% of the revenue. Those have shifted and going forward are going to be on a per-user, per-account basis. Then the remaining portion of the revenue was related to custom development work as well as implementation. To give you a little bit of sense for the over overall mix, the current software licensing revenue comprises about 25% to 30% of the overall revenue, historically, and software services was about 70%. That makeshift will scale more towards the software licensing going forward.

Dominick Gabriele: Perfect. Then just one more modeling one and I appreciate the strategic color as well. The EBITDA margin, I guess, target for 2025, could you try to help us understand the current expense base today in what you're projecting for 2022 for this business? Is it a scalable business where would expect over time, obviously, you talked about some of the expense synergies, for sure, and revenue synergies. But on a standalone basis, is this something that can see a margin accretion over time beyond your current margin expectation and while we work towards that margin target as well through '25? Thanks.

Chris Lapointe: Yeah. So, Dominic, I can take that one. So during our earnings call next week, we're going to provide more guidance for 2022 that incorporates the estimated impact of this transaction as well as a number of other recent developments, including impact of SoFi Bank as well as the extension of the federal student loan payment moratorium, which was scheduled from January 31st, '22 to May 1st, 2022. What I would say in terms of the overall profitability profile is that this business is profitable, but 2021 was certainly a year of investment for the business. And like I said, we'll provide more guidance next week. But we do expect the benefits of these investments that were made in 2021, as they built out the US capabilities as well as other markets, to start paying off in the 2022, 2023 timeframe. And we do expect this to be accretive to our incremental EBITDA margins over the long-term.

Dominick Gabriele: Great. Thanks so much.

Anthony Noto: Thank you for your questions.

Operator: Thank you, Dominic. As a final reminder, please press star one on your telephone key if you'd like to register a question. Next question is from Michael Perito from KBW. Michael, your line is now open if you'd like to proceed.

Michael Perito: Hey. Thanks, guys. Sorry. Just two more quick followups. One, just on the [inaudible] balance sheet. Just anything that, Chris, that you would note for us there in terms of any kind of larger debt obligations or need for cash infusion to fund investment or anything that we should consider once the deal closes?

Chris Lapointe: No. Nothing material to call out there, Mike. No material debt obligations, and the company's well capitalized.

Michael Perito: Great. And then just, secondly, not to put the cart in front of the horse, but when you mentioned Finxact, Anthony, and when I think of that platform and that cloud-based core provider, right, it's the general ledger core, and then there's a lot of other marketplace providers. Right? They use Apiture on the digital banking side. They use Pay Rails, [inaudible]. There's a lot of other providers. I guess, how do you kind of view the marketplace expanding in terms of the providers on top of the Technisys cloud-based core? Is that where Galileo comes in from a product perspective, or do you think there's room, whether through acquisition or partnership, to kind of expand that roadmap? I'm just curious how you guys think about that longer term.

Anthony Noto: Yeah. I want to make sure I understand your question. Technisys has what's called Technisys marketplace today, which is all these third-party providers like DocuSign and Okta, Twilio, et cetera. We're committed to providing a platform that allows our partners to integrate microservices of their own or those of third parties seamlessly into the core platform. And that's one of the other things that is differentiated about it. Not all platforms allow you to integrate microservices on top of the core platform, but Technisys technology allows them to do it. And is your question, are we willing to do that or is your question, are we going to look to add other acquisitions that start to go to that extent?

Michael Perito: Yeah. I guess it's kind of both. I guess, are you guys kind of content with the marketplace that's coming over with the deal and is there? What are your kind of plans to expand that? Would it be just through other third parties, or do you think there's more acquisition appetite on the technology side for SoFi moving forward?

Anthony Noto: I would say right now on, on the marketplace, it's more of third-party relationships. There are some technologies that, at the end of the day, we think about these technologies from the standpoint of, is there an adequate solution to meet our partners' needs over time as they scale? And if there's an adequate solution, that's not one that we're going to try to replicate or compete with. But as long as they have a scalable technology that is complimentary to the architecture at a reasonable price, there's not a big reason for us to want to do it.

As we think about AWS Fintech strategies, what are those technologies or capabilities that are not scalable for our partners? And they will hit a limit of growth, and so we need to provide them... or their cost leverage is not there, and we would need to provide them. Because at the end of the day, the AWS of Fintech strategy, Galileo and Technisys being the two major components of that now, it really comes down to a simple truth. Do we create more value for our partners than they can create on their own or with another partner?

And so everything that we think about from a prioritization standpoint is trying to answer that question, that we can create more value for them than they can do on their own versus someone else. So that's the way to think about prioritization. Over time, we'll look at other acquisitions. It's a very volatile time. Private companies are going to face a truth in the coming months and over the next year or so, as it relates to financings and what valuation ranges they get versus where their last rounds were.

And so we have to be very vigilant to look at things, but we're going to buy those things not just because it's a good deal, but because it reinforces the strategy that I talked about. One of the reasons why I went to such great lengths on the strategy is just to remind everybody that we've had one strategy since we got here in 2018. And when we do acquisitions, they have to be strategic to help us advance that strategy at a faster pace.

Michael Perito: Great. Thanks, Anthony. Thank you guys for taking my followups.

Operator: And thank you for your question, Michael. We have one final question from Dominick Gabriele from Oppenheimer. Dominic, your line is now open if you'd like to proceed.

Dominick Gabriele: Great. Thanks for the followup as well. If we just think about the competitive landscape, in particular, this quarter, some of the largest competitors within this core type product have talked about the need for a cloud native platform. Others have talked about this being really instrumental to what banking partners need over time. Perhaps you could just talk. You had a really great slide in there that kind of shows the walk over time over the last number of decades, actually. Maybe you could just talk about what's changing in the business right now that the partners you see and the acquisition you've made today really helps serve their needs where the previous cores just really couldn't. And so it creates an opportunity given the focus of what this technology within a cloud native cloud platform provides and helps you win versus kind of the traditional providers. Thanks.

Anthony Noto: Yeah. So I'll give you two examples. The first example is an existing partner to Galileo. They have one product, a debit ACH product. They've grown incredibly well with that product. They have a large installed base, and they're thinking about growth in the future. And maybe their customer acquisition costs is starting to rise because they're in the unbanked sector that's really competitive, not the sector that SoFi's in. And they're thinking about their new three-year plan. Well, it's obvious that we have a large installed base. We're generating great engagement with them. It's driving good revenue and profitability, but that growth is going to slow down. So what's the next S curve of growth? What's the next driver of growth? Well, okay. It's natural we should add other products. Our members or our partners are saying they want other products from us. They love our current product.

So they start architecting and building out their product plans instead of their products. And then they think about, "Well, who's my partner," or, "Who's my processing partner? Who's my sponsor bank. What's the ledger going to be for this?" And all of a sudden you realize if I pick the wrong partner, I'm going to be on two different cores and two different ledgers with the same customer information. It will not be a real-time available, seamlessly.

And so that's how the need gets created. People don't even realize they should be asking the question, "How do I do this in a way that's seamless so I can drive the best real-time decisioning, I can scale a technology, and I'm not going to always be having a team that's re-architecting for future partners?" Because if you pick a platform that doesn't allow for microservices or doesn't allow for third parties to come in and integrate seamlessly, it's going to be a heavy lift or you won't even have that functionality.

And so that's what's driving it. There's a lot of neobanks that have reached great scale and they're thinking about the next five years and how they're going to replicate that growth, and that requires new products, which requires an architectural decision.

On the SoFi side, we've run faster than any company I've seen in my professional career in launching a native mobile app, a series of different products and businesses and all the other things we've done on the corporate side of the equation in terms of raising capital and going public and becoming a bank. And part of that process was moving really fast and picking simple solutions to get to market as fast as we can. And so now we're also asking ourselves, "We have all these products. The strategy's working. We've accomplished the things we wanted to on a corporate level. What's the right technology to execute on best of breed products? What's the right technology to be the fastest? What's the right technology to be able to integrate content and convenience in a way that allows us to differentiate our products so that we always get chosen first and second?"

And then the last thing is, how do we make them work better together? If we have them and no one else has these products, that is an advantage. Well, what's even more of an advantage is if we use data so that when someone uses a second product with a first product or a third with the first two, we show the value of that increasing for them. And that's how we decided we needed a different approach to core and ledger technology, which led us to Technisys. And it was a great solution, both for what we're trying to accomplish with SoFi products, and also the element of our strategy of building out this infrastructure and turning into a business, which is what we call the AWS of FinTech. So that's how it was driven.

Dominick Gabriele: Great. Thanks so much for the answer. Thank you.

Operator: Thank you, Tony. We have no further questions, so I'll hand back to Anthony to make any final remarks.

Anthony Noto: Thank you very much, and we appreciate everyone dialing in at late notice and after a holiday weekend. We appreciate all your interest. And if you have other questions, please reach out to our IR team and we'll make sure we have time setup to answer them. Thank you.