SoFi Q3 2021 Earnings Conference Call

Tuesday, 10 November 2020

Andrea Prochniak Thank you all for joining us today for SoFi's third quarter 2021 earnings call. 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 third quarter 2021 financial results, and the discussion of our results today is complementary to the press release, which is available on the investor relations page of our website, investors.sofi.com. This conference call is being webcast live with accompanying slides on our IR page as well, and will be available as 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 can 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.gov/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 detailed disclosures 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 third 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, and thank you, all, for joining us for our third quarter earnings conference call. The results we're reporting today demonstrate three things. First, our ability to continue to deliver record financial results, which is a testament to our diversified business mix, and our ability to execute on our long-term strategy.

Second, our commitment to consistently iterate and innovate to create products that are both best-in-breed on a standalone basis and work even better when used together. And third, our ability to leverage data and learnings to drive more effective marketing and brand-building as we strive to make SoFi a trusted household brand name.

Collectively, these things are driving strong continued growth in members, products, and cross-buy. Let's take these areas one-by-one. I've said many times that the benefit of our unique and diversified business model is that our three distinct business segments behave differently in varying economic and operating environments. This allows us to shift focus and resources as conditions evolve.

Diversifying beyond our core student loan business into personal loans and home loans allowed us to weather the storm when the global pandemic cut industry-wide student loan origination volumes in half virtually overnight, and for the last 20 months. Building out a broad suite of financial service offerings has created exciting new opportunities for us to help people get their money right across online investing and spending via SoFi Invest, SoFi Money, and SoFi Credit Card.

And acquiring Galileo not only allows us to innovate faster on our products, but also positions us prominently among integrated tech platforms that service financial and non-financial institutions.

Diversification across our platform has allowed us to achieve record financial results in the third quarter, even in a continued volatile environment. Our third quarter adjusted net revenue of $277 million marks another record, beating both our previous record of $237 million for Q2 2021, and the high end of our quarterly guidance.

Even with the extension of the CARES Act, the lending segment adjusted net revenue hit a record of $215 million driven primarily by record revenues from our personal loans business. Our technology platform segment contributed $50 million in the quarter, or 18% of total revenue, representing 29% year over year, and 11% sequential growth. We achieved this despite difficult comparisons from last year's Stimulus benefits.

And in our Financial Services segment, third quarter revenue of $12.6 million, nearly quadrupled from last year's $3.2 million, driven by meaningful contributions from five businesses, SoFi Invest, SoFi Money, Lantern by SoFi, Protect, and SoFi Credit Card.

This broad-based revenue growth, coupled with the benefits of cross-buying and our ongoing focus on realising new operating efficiencies, resulted in third quarter adjusted EBITDA of $10 million, our fifth consecutive quarter of positive EBITDA.

Achieving record results allows us to invest in the new products and features necessary to position SoFi for long-term sustainable growth. We're sticking to our commitment to reinvest $0.70 of every incremental revenue dollar, and drop $0.30 to the bottom line, as we scale our business.

Here are some new product improvements and features from the quarter that are already making an impact. In lending, we launched a next-generation underwriting model in student loan refinancing that drove an increase in approval rates within our risk parameters. And in personal loans, we launched a new partnership with Pagaya to capture revenue opportunities from loan applicants we may not otherwise lend to. This allows us to serve a broader audience without additional credit risk and while maintaining our stringent approval guidelines.

In home loans, we made additional investments in marketing and fulfilment capabilities to better capture purchase volumes. In financial services, we launched after-hours quotes in SoFi Invest and introduced seven new crypto coins, bringing our total to 28. That's up from five at the beginning of the year. We also earned recognition for our growing Robo-Advisory business Barron's, which just named SoFi the Best Robo-Advisor for 2021.

And in Credit Card, we launched in-app balance transfers and implemented soft pull pre-approvals which reduces credit score impact on denied applicants. At Galileo, our significant investment to build a new cloud-based, modern card issuing and payment platform is resonating with both existing and prospective clients.

Having the best offering is not enough. We need to market our products and the SoFi brand in ways that engage members in order to make SoFi a trusted household brand name. Our iteration and marketing efforts over the last four years is significantly improving the effectiveness of our brand-building efforts. The third quarter was a game-changer for SoFi's visibility and reach and the impact on our growth.

Here are just a few examples of our success. In September, we launched our new SoFi Money Moves brand campaign during the US Open tennis tournament at the start of the NFL regular season, leveraging television, social and digital influencers, along with TV commercials that aired during the nationally televised games from SoFi Stadium.

The impact has been immediate and dramatic. SoFi TV spots drove more than 500 million impressions during the biggest moments in fall sports, and our unaided brand awareness doubled to a new high during the launch week. By working with some of the biggest digital influencers across social media, we've driven an additional 400 million impressions and 775 thousand engagements with SoFi content.

Our #SoFiMoneyMoves campaign on TikTok has driven more than 8 billion views and more than 1 million uses of our branded hashtag so far. The reopening of SoFi Stadium to sold-out crowds, with great media coverage across the full array of sports and entertainment events, has validated our decision to invest in naming this iconic destination for sports and live entertainment.

Nationally televised NFL games from SoFi Stadium this season have averaged 20 million TV viewers per game. That compares with the 15 million total TV viewers we previously reached in an entire year between all of our SoFi Sports sponsorships.

As a result, when our TV ads run during SoFi Stadium NFL games, we consistently see a significant uptick in brand awareness, member and product growth, and SoFi app downloads. We're also getting better at leveraging our highly engaged member base to drive product adoption via cross-buy.

Let me share three examples from the quarter. First, by iterating on referrals, continuing to scale our top-of-the-funnel products, leveraging in-app communication, and expanding our popular SoFi Personal Loans Money bundle to 100% of our members, we drove a 65% sequential increase in cross-buy volume amongst SoFi Money First members.

Second, we added eight new ways to earn points to our unique SoFi rewards programme, the only programme that allows members to earn points for both transactions and responsible financial behaviours, bringing our total earn and redeem options across the SoFi platform to 33. SoFi Rewards drove 15% of the quarter's new product growth.

And third, we launched promotions around our new Refer the App and SoFi Money referral programmes, which drove 18% of member growth in the quarter and significantly increased our app downloads and our rank in app stores. Our product enhancements, plus more effective marketing, were instrumental in driving member, product, and cross-buy growth.

The third quarter was our second-highest ever for both member and product growth. Total members grew 96% year over year, to 2.9 million. We added 377,000 new members, which is an amazing 35% increase versus the 279,000 new members we added in the Second Quarter.

Total products grew 108% year over year, to nearly 4.3 million. We added 600,000 new products, which is a 24% increase versus the 483,000 new products in the second quarter. The scale we are achieving in Money, Invest and Credit Card, which are at the top of our product funnel, is having a dramatic impact on cross-buy volumes.

The third quarter was a record for cross-buy products with SoFi Money, SoFi Invest, and SoFi Credit Card First members accounting for 73% of total cross-buying, demonstrating that as the top of our funnel scale increases, so will cross-buying and the benefits of our Financial Services Productivity Loop strategy.

As important, when a bottom-of-the-funnel loan is cross-bought, the lifetime value of the member doubles from already industry-high levels to more than $1,600 versus just a loan-only member.

Our momentum continues at Galileo as well. We signed 13 new clients, bringing our year-to-date total to 35, and finished the quarter enabling our clients to serve 89 million accounts, up 80% year-over-year.

Today, we are in our strongest position ever to fund and execute on our ambitious long-term growth strategy. The $1.2 billion we raised in a zero-coupon convertible debt offering in October brought our total capital raise over the past year to $3.6 billion, and our total capital to $4.6 billion.

And our pending application for a bank licence represents a potential new source of funding and flexibility for us. I am proud of this impressive list of accomplishments for the quarter, especially in a continuing volatile economic and financial markets environment.

As we head into the final weeks of 2021 and turn our focus to 2022, I am awed and humbled by all the SoFi team has been able to accomplish this year, and I'm thrilled for our next chapter in 2022. Now, I'll turn it over to Chris for a discussion of the quarter's financials.

Thanks, Anthony, and good afternoon, everyone. We had a great quarter with strong growth trends across the entire business. We exceeded our financial outlook while achieving record revenue in our fifth consecutive quarter of positive EBITDA, despite facing a number of headwinds in the quarter.

Our results further validate the durability and long-term growth potential of the diverse and differentiated business model we've built. I'm going to walk you through some key financial highlights for the quarter and then share some colour on our financial outlook.

Unless otherwise stated, I'll be referring to adjusted results for the third quarter of 2021 versus third quarter of 2020. Our GAAP-consolidated income statement and all reconciliations can be found in today's earnings release, and in our upcoming 10-Q filing.

For the quarter, we delivered record adjusted net revenue of $277 million, up nearly 20% from the prior sequential quarter's record of $237 million, and $22 million above the high end of our guidance of $245 million to $255 million. We also delivered $10 million of adjusted EBITDA, which came in $7 million higher than the high end of our guidance of negative $7 million to positive $3 million.

We continue to make great strides on an annual basis as well. We've generated $912 million of adjusted net revenue over the last 12 months, an 82% increase from the same prior-year period. We also generated $37 million of positive EBITDA over the last 12 months, a significant $195 million improvement from our $157 million loss in the same prior-year period.

Our incremental EBITDA margin for the last 12 months was north of 40%, but as we've discussed previously, we intend to reinvest 70% of incremental revenue back into the business on average, and deliver incremental margins of 30% to drive sustainable growth for years to come.

Now, onto the segment level performance. Our record lending segment adjusted net revenue of $215 million was driven by a 49% increase in funded volume to $3.4 billion in total. The largest contributor of the funded volume growth was our personal loans business, which grew 167%, or $1 billion, year over year, to $1.6 billion in originations for the quarter, a new high for us.

Not only that, personal loans funded volume grew sequentially by 27%, even as we stuck to our stringent credit standards, finishing the quarter at 105% above Q4 2019 pre-pandemic origination levels. A true feat.

This growth was driven by our ability to capture increased demand from borrowers looking to remodel homes and refinance out of a variable-rate debt into attractive fixed-rate products as interest rates increase.

In addition, increased net interest margins and strong gain on sale margins drove material year-over-year growth in net interest income and loan sales revenue. Strong growth in originations and record lending revenue are a testament to the success we've had in diversifying our lending segment beyond student loan refinancing, which remained at 50% of pre-CARES levels, and in our ability to navigate the evolving credit and interest rate environment.

The lending business delivered $118 million of contribution profit, at a 55% margin, up from $103 million a year ago. Shifting to our tech platform, where we delivered net revenue of $50 million in the quarter, up 29% year over year, versus a tough comparison driven by stimulus benefits in the same prior-year period.

Overall, growth was driven by 80% year-over-year Galileo account growth, to $89 million in total, and contribution profit of $16 million represented a 31% margin. As discussed previously, we are committed to investing in the platform to ensure that Galileo is well-positioned to capitalise on the secular shift from physical to digital payments and the rising overall demand for more FinTech services.

Accordingly, margins are down from 61% a year ago, due to our significant 2021 investment in technology capabilities overall, our migration from on-premise to the cloud, as well as the ongoing investment into new products and geographies. It's worth noting as well that Q3 2020 included the 100% margin contribution of our equity-method investment in Apex, which we called earlier this year.

We will continue operating our tech platform business in the 20% to 30% contribution margin range for the foreseeable future, to set the stage for compounding long-term growth.

Onto our financial services segment, which continues to benefit from strong product growth across our broad and diversified suite of offerings. This segment delivered revenue of $12.6 million, nearly four times the prior-year quarter at $3.2 million.

The sequential decline from $17 million of revenue in Q2 of 2021 reflects the absence of episodic revenues recognised that quarter from our Advisory and IPO Underwriting Services totalling about $4.5 million. Excluding these Q2-specific items, revenues were essentially flat.

Within the segment, year-over-year revenue growth was particularly strong in SoFi Invest, Lantern, Credit Card, SoFi Money and Protect. Exponential growth in products, which grew 2.8x to $3.2 million from $1.2 million in Q3 of 2020, drove our strong performance.

Every one of our Financial Services products grew by triple digits, year over year. We had 1.2 million products in SoFi Money, 1.2 million in SoFi Invest, and 750,000 in Relay, and continue to see good momentum in Credit Cards.

While we're starting to see a more meaningful contribution to consolidated revenue from this segment will remain in investment mode, focused on creating the right unit economics for each business to drive long-term sustainable growth.

You can see this investment reflected in our Q3 Financial Services contribution losses of $39 million, which were up $2 million from a loss of $37 million a year ago. Excluding acquisition marketing, contribution profit improved by $2 million.

The next thing I want to address is our balance sheet. Overall, we're very well-capitalised. Over the last year, we have raised $3.6 billion of capital, $2.4 billion of which came through a combined private-placement led by T. Rowe Price, a PIPE in our IPO, and $1.2 billion of which came through a 0% convertible debt offering that closed in October.

The strength of our balance sheet has provided us with significant flexibility and helped lower our overall cost of capital, resulting in strong net interest income in the last two quarters.

Our current book value is $4.6 billion, and our capital and leverage ratios are extremely strong. In addition, we still have access to nearly $6 billion of warehouse capacity to help fund the operations and growth of our lending segment. We are excited about the strength of our balance sheet and will continue to make choices that ensure the most efficient cost and use of capital.

All right, I'll finish up with guidance. Over the last several quarters, we have demonstrated the benefits of our uniquely diversified business model by delivering strong financial and operating growth. For Q4, we expect an acceleration in growth, with $272 million to $282 million of adjusted net revenue, up 49% to 55% year over year, and $2 million to $5 million of adjusted EBITDA, as we continue to invest to drive growth.

We now expect to deliver $1.002 billion to $1.012 billion in adjusted net revenue, exceeding our original 2021 full year guidance of $980 million, and adjusted EBITDA of $28 million to $31 million above our original full year guidance of $27 million.

This is despite facing previously-discussed headwinds estimated to be $52 million of negative impact from the CARES Act extension on our SLR volumes, and our prior equity investment in Apex being called earlier this year, which we mentioned during our Q2 earnings call.

Switching to non-cash items below our adjusted EBITDA, we announced last week that we will be redeeming the $28 million SoFi Technologies public and private warrants that were issued as part of our IPO process. Warrant-holders have the option to exercise on a cash or cashless basis up until December 6th.

Q4 share issuance associated with these exercises will be in the range of 10 million to 28 million shares, depending on exercise methodology. And the Q4 non-cash P&L impact will be determined based on the change in fair market value of the warrant, as of the redemption date relative to the end of Q3 2021.

Finally, we forecast stock-based compensation expenses to be $80 million to $85 million in Q4. Overall, we're thrilled with our performance in Q3, where we delivered more than $1 billion of annualised revenue, and our fifth consecutive quarter of positive EBITDA. We continue to make great progress and remain very well capitalised to continue pursuing our longer-term objective of ultimately becoming a top financial institution. With that, let's begin the Q&A.

Operator As a reminder, if you'd like to register a question please press star followed by one on your telephone keypad. If you change your mind, please press star followed by two, and please ensure you're unmuted when speaking. Our first question comes from Betsy Graseck of Morgan Stanley. Betsy, the line is yours.

Betsy Graseck Hey, thanks so much. Good evening, everyone. Can you hear me, okay?

Anthony Noto Yes.

Betsy Graseck All right, great. Yes, I had two questions to kick off, here. One was just understanding, in Financial Services, how you see the impact of the new coins that you launched this quarter, and if you could update us on how you're thinking about additional coins from here.

And really the underlying question is you were flat Q2, ex the one-timers you called out, so help us understand how you're thinking about the trajectory in that line as we move forward. And am I right in thinking that coins might be part of it, or would you direct focus elsewhere? Thanks.

Anthony Noto Yes, I'll answer the question from a consumer value proposition standpoint, and then Chris can get into the numbers in more detail. We endeavour to differentiate our products on four macro things, fast, selection, content, and convenience. And then we want each of our products to work better when our members use it with another product.

As it relates to selection, we're the only invest product that has single-stocks, fractional shares, six of our own ETFs uniquely built for our members, Robo-Advisory accounts, as well as cryptocurrency. And then, within each one of those, we're trying to drive more and more selection as well, in addition to driving horizontal selection.

And so, you're right, we added a number of coins in the quarter. Actually, throughout the year we started with five coins, we're now up to over 25 coins, and we'll continue to look for opportunities to add selection generally, both within cryptocurrency and outside cryptocurrency.

And we hear from our members every day what they want, and we want to give them the opportunity to buy what they would like, but to do it in a responsible, diversified way, so educating them on the risks of cryptocurrency, and also dollar-cost averaging, and setting up recurring investment capabilities.

We're really encouraged by the trends we're seeing in our Invest business overall. We had really strong growth in both new members in Invest, and we had really strong growth in AUM. And I'll turn it over to Chris to talk about the differences between Q2 and Q3, as well as how we see the momentum going into Q4, which is quite strong for Invest overall.

Chris Lapointe Yes. Hey, Betsy. In terms of Q2 versus Q3 and crypto revenues specifically, we don't disclose that in our filings, but you'll see, in our 10-Q that gets filed in a few days, that we do disclose brokerage revenue, and that was down by about $2.7 million sequentially, as a result of lower trading activity.

However, the headwinds that I just mentioned, and the decline in brokerage revenue, were offset by sequential strong growth in our SoFi Money, Lantern, and Credit Card businesses, which allowed us to generate that flat revenue that you talked about quarter over quarter, when excluding those deal revenues. And this speaks to the benefits of the diversification within Financial Services.

Anthony Noto And then in terms of as we think about the fourth quarter and our guidance, we are guiding for an acceleration on a year-over-year basis to 49% to 55% year-over-year growth, which is faster than what we had in Q3 on a year-over-year basis.

When you think about sequential growth, the vast majority of that sequential growth will come from tech platforms, in a similar fashion as it was in Q3, as well as financial services, which would be materially faster sequentially. Into Q4, we're seeing really positive trends in both those businesses and really benefiting from the initiatives in Q3 flowing into Q4 from a revenue standpoint.

Betsy Graseck Got it, thanks. And then a separate question is on the question around the bank charter, and I know you have that application outstanding. The question has to do with the recent OCC acting head speech where they indicated that there might be a need for holding company level regulation from institutions that are seeking a charter outside of the regular bank channels.

And I'm wondering if you saw that speech, and if you have any thoughts or comments as to whether or not that would change your plans as to how you're thinking about moving forward with the potential for a bank-like structure in part of your business?

Anthony Noto Yes, I was very relieved by that speech. We were watching it very closely. Some people may not realise this but we applied for the exact licence that our current acting head, Michael Hsu, mentioned. We applied for a bank holding company national bank charter, which would be regulated by the Federal Reserve as a bank holding company, and would be regulated by the OCC as a bank. Both of those will be our two primary regulators in addition to the FDIC.

So we're really fortunate in that we've built the business for durable, long-term growth, taken the harder path. Our lending business originally was built on the back of licences in 50 states. Our home loan business, and these are our licences, not borrowed licences, not rented licences. Same thing with our home loan business. And in cryptocurrency, we have money transmitter licences.

So, we've taken a harder, right approach over the easier, I think, wrong approach, people will see in time, including applying for a national bank charter instead of applying for an ILC, or applying for a FinTech charter, or applying for a crypto charter. We applied for the full monty, exactly what the acting head indicated everyone should be applying for if they're taking deposits or taking cash.

We're really encouraged by the progress we've made with our regulators in the exam process since March, the feedback has been constructive. The timeline's not specific, and there are more steps beyond just the exam, but we're encouraged by the constructive feedback we've gotten, and working with them as real partners.

So I look forward to finishing this last mile and reaching another milestone for the company that we think will be a huge competitive advantage, especially in light of the comments last week.

Betsy Graseck Okay. Thanks so much, Anthony. Appreciate that.

Anthony Noto You're welcome.

Operator Our next question comes from Moshe Orenbuch of Credit Suisse. Moshe the line is yours.

Moshe Orenbuch Great, thanks. I was hoping you could talk a little bit about the underwriting process and the changes that you have made that have allowed you to expand originations. I think there's a little bit of a discussion with that in the student part. And then also some additional context on the relationship with Pagaya and what that could do for SoFi.

Anthony Noto Yes, I want to be super-clear on our lending business. We have not changed our credit model, we haven't changed our target focus. Our average FICO scores are high-quality, prime FICO scores that are still well into the 700s. What we're doing is we're constantly testing all the different variables and their indication of where we end up on loan size, on pricing, and [unclear] losses on delinquencies.

So it just continued iteration to make sure that we're being efficient on both the credit spectrum, as well as the pricing spectrum. And we develop new-generation models that are based on data and analysis, but we haven't changed our philosophy or approach to the credit that we're willing to underwrite. Chris, can you add anything to that? Was there a second part to your question? I think was tied to Pagaya?

Moshe Orenbuch Yes, Pagaya [overtalking].

Anthony Noto Yes, sorry, I apologise. So, Pagaya is the extension of a strategy we started two years ago. We're able to meet about 30% of the demand that we get for our unsecured personal loans, what we call PL, and what we found was that we're obviously investing in our brand, investing in brand-building, and if we're only meeting 30% of our demand, how could we capture more value beyond that, if we don't want to change our approach to credit?

And we built a property [?] called Lantern Credit by SoFi, which is a financial [inaudible] comparison property. Our first step was to take some of the people that we would not otherwise lend to and send them to our Lantern partners and generate lead revenue from that.

Pagaya is an extension of that success over the last two years, where we're integrating their credit model into our decision engine, along with the SoFi credit model, and so we're running both simultaneously. Pagaya, the partnership allows us to serve a broader set of people than we'd otherwise fund, but we're not taking the credit risk, we're not changing our credit profile.

And Pagaya and our other partners are taking that paper, underwriting it, pricing it, and then taking out the credit risk, and we maintain the servicing and the relationship with that member, so we can continue to offer them other products and services, and quite frankly improve their credit and be able to serve them well and help them get their money right.

It was de minimis in the quarter, but it's a bigger opportunity for us to add additional high-margin revenue against all the investments that we're making. So, it's part of a broader strategy.

Moshe Orenbuch Got it, thanks, that's extremely helpful. And maybe if you could just talk a little bit about your expectations on marketing costs and how you see them trending as you go forward? I think Chris talked about the re-investment to drive future growth, and what are you actually seeing and how will that be reflected over the next several quarters

Anthony Noto We saw a real game-changer in our marketing, as I mentioned in my prepared remarks, the elements that we've worked hard to build over the last couple of years. Multi-layered marketing, television, the stadium, our direct mail marketing, our digital marketing, social influencer marketing, it's all coming together to drive really strong performance.

We're achieving our long-term customer acquisition cost by product, which is allowing us to drive the level of scale that we're driving sequentially. And we're seeing good efficiencies there. Each one of our businesses and their leads are really challenged to build, over the long term, a best-in-breed product based on the differentiators I mentioned, and best-in-breed unit economics.

And those unit economics are tied to very specific targets across each of the cost line items, as well as the customer acquisition costs. They're all operating in the long-term customer acquisition cost, and we're still operating in that range, which is what's really helping us drive the scale that you see.

Cross-buying was a record for the quarter. One of the things that may not be obvious to everyone when we say 73% of the cross-buying was driven by Money, Invest and Credit Card First members is that we're not paying that second-customer acquisition costs. So, we hit 2.9 million members in the quarter.

When we went through the public process of the presentation in January of this year 2021, we had a year-end target of 3 million members. Well, we ended the quarter at 2.9 and we're over 3 million now, as you would imagine, and we're seeing good strong trends there.

If you think about our total cost-per-member, which went down sequentially, we should have significantly even greater marketing costs, but we're driving the member growth through lower-cost vehicles like referrals and other programs that are unique to SoFi. It's allowing us to achieve out-sized growth in members relative to expectations, but still delivering on profitability.

Moshe Orenbuch Thanks very much.

Anthony Noto You're welcome.

Operator Our next question comes from Dominick Gabriele of Oppenheimer. Dominick, please go ahead.

Dominick Gabriele Great, and great results. If you think about the launch, I believe, this quarter of SoFi financial planning, could you just walk through some of the dynamics that you're looking to gather among your customer base with launching that product in particular? And then I just have a follow-up, thanks.

Anthony Noto Sure. I think what you're referring to is our partnership with FPA. It's not a new programme, it's an extension of what we call SoFi At Work. SoFi At Work is our approach to enterprises, to companies, where we offer them a suite of products and services and a portal for their employees to take advantage of unique offers from SoFi that are driven for us through their employee communications.

The FPA is an association that has a significant number of financial planners. The programme that we brought to them is the ability to get those same benefits for their customers, and it's a new distribution relationship for the At Work programme, which contributes to all of our products, and also has revenue streams itself on a per-[unclear] basis. And so, it's not a building of financial planning at SoFi, it's really a new relationship with the FPA.

One thing that we do provide for our members that is direct is we do provide free certified financial planners already. In addition to that, we also have the Relay product which gives us a significant amount of information from all their other financial products, so we can better personalise offers to them.

Often it's the case that we'll see that someone through Relay has a number of credit cards that are fully utilised, and we can offer that person, based on what we see, a lower-cost term loan through our personal loan business, or we could see someone with a lot of excess cash in their SoFi Money account, and we could offer that person a free certified financial planner session to help them invest that money and have it compounding over years.

We can also see someone that could be paying a personal loan, and that personal loan could still be a federal loan and one that we could refinance at a lower cost. So, we're in the business of financial planning every day helping our members answer three questions, what must they do that day in their financial life, what should they do, and what can they do, but it's more of a holistic experience at SoFi, as opposed to one particular thing. You said you had a follow-up as well?

Dominick Gabriele Yes, thank you. You talked about the technology segment margin being in the range of, I believe, 20 to 30, it obviously came in above that range this quarter. Maybe you could talk about the cadence of how that margin reacts over the next number of quarters? And then how your progress is overall in moving your client on the cloud? That'd be great. Thank you very much.

Anthony Noto Yes, we're really happy with the addition of Galileo to the company 18 months ago. The team has done a phenomenal job of upgrading the on-prem technology capabilities, as well as completing the cloud build-out. We're currently on-boarding with all new partners into the cloud directly, and we're building a detailed plan of migrating existing customers into the cloud. That will take place throughout all of 2022. In terms of the investments that we're making from here, now that we have on-prem upgraded and the cloud built out and it's really just about migration, we can reallocate our resources more offensively and launch new products and services.

We did already launch a new disputes product, which the team re-engineered and reintroduced for our members, and that was a big heavy-lift, and there will be a series of other products that unfold in 2022 that will drive incremental revenue against the existing 89 million accounts that we enabled, not to mention allowing us to capture new partners.

We added 13 new partners in the quarter, that brings us to 35 for the year. They'll start contributing new accounts in 2022 as well. In terms of the investing, we are committed to staying in that 20% or 30% margin range. There could be a quarter where revenue comes in, and we can't spend enough, and the margin's a little bit higher, but there's no change in our desire to want to invest as much as we can in that business, but being prudent in that 20% to 30% margin range.

We just think the growth opportunity here is so enormous, we don't want to under-invest in it. We want to drive durable compounding growth over time, and we think that's the right level of investment to make to ensure that we're capturing it.

Dominick Gabriele Thanks again.

Operator Our next question comes from John Hecht of Jefferies. John, please, go ahead.

John Hecht Afternoon, guys. Thanks for taking my questions. First, was the general yield relative to originations in the lending segment was stronger this quarter than prior quarters, and I'm wondering is that gain on sale execution, or are there other fee accruals that we should be aware of? And then also maybe the mix of whole-loan sales to other financial services companies versus the sales and securitisations and how the execution worked out there?

Chris Lapointe Yes, sure. Hey, John, this is Chris. In terms of what drove some of the growth there, we saw good sequential and year-over-year growth both in NIM revenue as well as loan sales and originations, which was driven by our overall gain-on-sale margins.

So you'll see this in the 10-Q that gets filed in a few days, but gain-on-sale margins remained very healthy in our business and improved in both personal loans and home loans. In personal loans, the gain-on-sale margin was 4.5% in the quarter, that's up from 4.2% last quarter. Student loan refinancing remained at a very healthy level at 4%, and our Home Loans business was at 3.1% in the quarter, up from 2.7% last quarter.

In addition to that, the things driving the strong NIM margin was overall reduced cost of capital, as we deployed some of our IPO proceeds towards paying down warehouse debt in the quarter, and that helped drive some of that yield. And then, in terms of the mix of whole loan and securitisations, it was in line with what we've seen historically. It's about 50% in each of personal loans and student loan refinancing. 50-50 split.

John Hecht Okay. And then, a really strong quarter of customer acquisition, and I know you guys talked about different marketing channels, particularly in the SoFi Money product, but I'm wondering has there been a change, given the increase in personal loans versus student loans, if not in the inbound entry products? And does that mean anything in terms of the unit-level economics in the future?

Chris Lapointe Yes, we've definitely seen efficiencies in the personal loan on the marketing line from cross-buy. We've had really strong cross-buying in both PL and SLR. We've shared some of those rates with you during the IPO process, and they've continued to be strong in that range.

Home Loans has always been very high, in the 60% to 70% range, and that's stayed consistent. The marketing efficiencies on PL have been the greatest. There, the unit economics are very attractive, and not paying that second customer acquisition cost results in more variable profit.

But we're trying to reinvest all those benefits back into the business, just because we know what the response is to the spend. It's a good return. That return takes place over time on the financial services products. On the loans, it pays back right away. And we just want to make sure that we're capturing the growth in front of us versus driving to really high margins and not capturing opportunity in front of us.

On the entry points, the way to think about the top of our funnel is Money is at the very top of the funnel. It's a big driver of cross-buying, a Money First member. In fact, I think I've said in the prepared remarks, it was able to drive 65% of the cross-buying in the quarter, just given how much more data we have and the activity on a day-to-day basis from that product. And Invest contributes, also benefits, and Credit Card contributes.

The other product that we have that doesn't drive revenue directly is Relay, and it would add another 10% to the contribution of cross-buy to Money, Invest and Credit Card. So instead of 73% of our cross-buy driven by Money, Invest and Credit Card First members, it would be closer to 85% if we added in Relay.

So, there are a lot of different levers driving it, and we're seeing the benefit, but we're spending it back to maximise member and product growth, and then that will lead to revenue in the future, because it takes a while for those members and products that come on that are outside our loans to build up balances or AUM, or start to spend on their credit card before it hits the revenue line. And we do think we're going to have strong momentum going into Q4 versus Q3 in the financial services line, as I mentioned.

John Hecht Great, I appreciate that colour, thanks.

Anthony Noto Thank you.

Operator Our next question comes from Dan Dolev of Mizuho. Dan, please, go ahead.

Dan Dolev Hey, Anthony. Hey, Chris. Great results and great quarter, amazing. So I just had a question on the personal loans and maybe on the partnership with Pagaya. It looks like the results are really strong, how much of a competitive advantage is it for SoFi to have that relationship, and what is still unique about it? Because I've been hearing more and more about it. And then I have a follow-up, thank you.

Anthony Noto They're a great Company. They have strong technology; they have great partnerships that allow them to drive their lending business, and we attempted over the last 4 years, I think Michelle will tell you, two other times of integrating a partner so that their credit model would run simultaneously with ours in our decision engine, and we never got to the point that it was working really well.

Now, it’s working well with Pagaya from a technical standpoint, but the team is now iterating and learning how to improve the conversion from the offer, down through all the way to funding. So, it's a really unique opportunity.

As I mentioned, we're capturing 30% of the demand that comes in for our personal loans, which means we're missing 70% of it. This type of relationship, on top of what we're doing with Lantern, allows us to capture that. But the thing I really love about this relationship is now we're recapturing economically on day one, but we're also capturing that member as part of the SoFi family, and we can help them get their money right with other products, like investing and SoFi Money, SoFi Credit Card down the road, SoFi Relay, Protect and our other lending products as well.

So it's a really important economic relationship. It does take a unique technology to make it happen, and we found the right technology partner and lending partner, but it also has a longer-term benefit beyond what we'll report in any one quarter.

Dan Dolev Yes, totally cool, very strong. And then I have a quick follow-up, Anthony and Chris. I'm looking at the product per member and it's looking really strong and it's improving sequentially, really nicely. Where are we headed? This seems to be the dream come true of the single money app, and you're moving towards that really quickly. What can you share about those metrics, which looks really strong this quarter? Thank you.

Anthony Noto Yes, we are growing really fast, so we're growing the numerator and the denominator, both in terms of members and products per member, and so it can mask some of the cohort trends. But generally what we're seeing is our strategy playing out and older cohorts having more products per member than newer cohorts. And you see the weighted average math by just dividing product by member.

So I think we have a really good understanding of the types of information that we can use to come up with personalised recommendations for our members, and serving them in our member home feed, which is driving additional product adoption.

Referrals are a very unique product that allows us to build trust and reliability with one member, and then they refer that to their friends and their family, and we get other members that look like them, the same demographically, so that's really working.

Our rewards programme, as I mentioned, is contributing as well. We have a rewards programme that really will be hard for others to match, because they'll either not have all the products or they won't have the technology. We built a technology platform that allows our product managers and general managers to trigger rewards off of any activity they want. and we redeem into all of our products, regardless of where it's triggered.

So people get 1% back if they just use the credit card and just redeem into credit card. They redeem into Invest, or they redeem to buy cryptocurrency or to buy single-stocks or Robo or ETFs, or they redeem into money where they pay down loans with those rewards, we double the points.

But we trigger those points not just off of credit cards. Right now we're triggering it off of recurring investments, off of direct deposit, off of bill pay, how often you use the app, etc. So that's starting to have an impact.

And so, each one of these product enhancements that leverage our unique strategy, they're contributing to that product growth, and that's why you see the relationship of 600,000 new products to 377,000 new members. It's hard to drive both so fast, and we're at the point now where we have the data, the logic, and the approach to doing it, and we were looking forward to taking it to the next level in 22.

Dan Dolev Yes, amazing results, congrats again.

Anthony Noto Thank you.

Operator Our next question comes from Sean Horgan of Rosenblatt Securities. Sean, please, go ahead.

Sean Horgan Hey, guys, thanks for taking my questions. I wanted to just dig in on the cross-buy rates. I appreciate the additional disclosure you gave, I think you said cross-buy for SoFi Money First members increased 65% sequentially. Can you expand on the products that comprise these cross-buy volumes? In other words, what's the typical second product for the average SoFi Money First member?

Anthony Noto I would say it's not getting into that level of detail, and I don't want to not answer your question, it's just we're not trying to actually drive people to where we benefit. We're trying to serve them relative to what the opportunity is to get their money right.

So we're indifferent what the first or second product is this. If someone comes in through a student loan refinancing and then takes out a personal loan, we save the $800 of customer acquisition cost and we're super happy. If they come in through SoFi Money and then go into Invest, we're equally as happy.

And so we're trying to build each product by itself to be best-of-breed across the value prop that I mentioned earlier, as well as best-in-class in economics, so that we'll always remain indifferent. We want to use the data we have to make the right suggestions for them at the right moment in time, to be there for all the major decisions they make in their lives, and everything in between.

So we look at that data, we understand the success of our ability to drive personalisation, but we're not trying to drive some combination. We want to serve them when they need the products the best, and if we do that, and that's our job to be done, they'll keep coming back.

And we're measuring NPS scores as well as reactions to offers in their member home feed to make sure that we're meeting their satisfaction levels the way we should. It is very much the case that each product drives cross-buy to others, but it's different percentages. Generally, the more data we have for one product, the more cross-buying we can derive from it.

Sean Horgan Yes, that makes sense, I guess. Then, in a quarter where personal loans, for example, did really well, I guess the incremental growth overall is a fair assumption.

So just switching gears to my follow-up, you provided some helpful metrics around your brand and influencer campaigns, for example the 8 billion views on TikTok. Can you discuss how these metrics are translating to new users and at what customer acquisition cost? And has your allocation of marketing spent to these channels increased as a result of the recent data privacy changes weighing on customer acquisition costs through more traditional performance marketing channels?

Anthony Noto I'll answer the last part of your question first. We really haven't seen an impact to our customer acquisition costs from the data privacy changes that you referenced for others and other people have seen. So I would just say that upfront.

I said earlier that our customer acquisition costs by-product are within the range of where we set them for long-term targets to make sure we get the right LTV to CAC relationship, and the right long-term return, and so the team has done a good job of being able to drive this growth by staying within those limits.

One measure, we report sales and marketing, about 60% of our sales and marketing is true customer acquisition cost, marketing as opposed to fixed costs. but even if you just took our total sales and marketing and divide it by new members, you would see that that marketing cost per member went down sequentially, I think 8%, which just shows you the efficiency that we're growing really fast, we're spending a lot more dollars.

It's very rare that you have the dollar increase that we had in the quarter and that we've been driving that you actually drive efficiency. I talked about effectiveness in our prepared remarks and what it was driving across each element. There also is efficiency that you can just see in the P&L if you do that math.

So we're really encouraged by the impact that our marketing has had and integration into the product experience, and we will continue to reinvest in those bands that I mentioned. Each product has its own, but that's one way for the Street to look at what's the overall efficiency of our marketing to new member.

And I want to reinforce this point again, revenue from loans comes day one. Revenue from the Financial Services products unfolds over time on a direct basis. It unfolds on an indirect basis over time as well. So a new Money member that comes in could drive revenue faster by driving cross-buy into a loan, than it drives on its own during that quarter per se.

But obviously when a Money member signs up, they then have to transfer money in, start a direct deposit, and start spending, and, over time, those two elements start to increase. In Invest, we have to add AUM, they start investing, they're typically not sitting on $2,000 or $3,000, it takes a while for that to build up to that level. But as it does, the revenue starts to come in and it starts to contribute. The same thing with Credit Card, they have to start spending.

And so the momentum that we're seeing in the Financial Services line and that we're guiding to is a reflection of the growth over the last couple of quarters starting to kick in from a revenue standpoint, sequentially, but obviously was up close to fourfold on a year-over-year basis. But I don't want anyone to miss the point that those financial services members that come into the top of the funnel, they can drive lending revenue day one, day two, right away if they buy a lending product, as opposed to needing to wait for them to build up a balance or AUM in top of funnel products.

Operator We have no further questions on the phone line, so we'll hand back to Anthony Noto, CEO.

Anthony Noto Thank you very much. I'd like to finish today's call with what I told our SoFi team at our All-Hands meeting when Q3 ended. We've accomplished more at SoFi this year than many other companies will achieve in a lifetime. I'm incredibly proud of these accomplishments and the additional progress we made during the third quarter, which marks a year-long sprint of incredible company milestones.

Now, the only thing that stands between where we are today and our long-term aspirations for SoFi is us. And I have absolutely no doubt that we have the right strategy, the right team with the right goals to deliver on these aspirations and more. Thanks for joining us today and we look forward to talking to you when we report fourth quarter results. Thank you.