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SoFi Q1 2022 Earnings Conference Call

Tuesday, 10 May 2022

Jason:

Good afternoon. Thank you for attending today's SoFi first quarter 2022 results. My name is Jason, and I'll be the moderator for today's call. Management is here to discuss the results.

Andrea Prochniak:

Thank you operator, and thank you all for joining us today for SoFi's first quarter 2022 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. Our discussion is complimentary to the press release we issued today, announcing SoFi's first quarter results. You can find it on the investor relations page of our website, investors.sofi.com. This conference call is being webcast live and will be available as a replay for 30 days, beginning about one hour after the call ends. There's also an accompanying investor presentation on our IR page. During the course of this conference call, we may make forward looking statements based on current expectations, forecasts and projections, as of today's date. Any forward looking statements that we make are subject to various risks and uncertainties, and there are important factors that could cause actual outcomes to differ materially from those indicated in the statements. We discuss these factors in our SEC filings, including our first quarter 2022 form 10Q, which can soon be found on the IR page of our website and on the SEC filings website, [SEC.gov/EDGAR](https://www.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 reconciliation, you should refer to the financial data contained within our press release, which is also posted to the IR page of our website. Today's discussion will focus on first quarter 2022 results. As always, 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 good afternoon, everyone. I'm incredibly proud of our first quarter performance given the resilience we demonstrated to deliver the strong results we're reporting today and our positive trends thus far in the second quarter. A few of the key achievements in the quarter include: another quarter of record adjusted net revenue with 49% year-over-year growth; our seventh consecutive quarter of positive EBITDA; continued strong growth in members, products and cross-buy volume; the successful launch of SoFi Bank and our new SoFi checking and savings account offering, both of which are already contributing to our results; the announcing and closing of the acquisition of Technisys to accelerate our innovation while also serving as a critical platform that accelerates our progress in building the AWS of FinTech. The strength of our results achieved, despite volatile markets and the changing political, fiscal and economic landscape also demonstrate how our strategy of building a full suite of differentiated products and services has actually created a uniquely diversified business that can not only endure, but outperform across market cycles.

Because of the depth and breadth of our offering, we were able to make swift and critical adjustments in priorities and spend as conditions evolved in order to capitalize on growth opportunities and exceed our performance targets.

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I'm proud of how our team has successfully navigated each new challenge and opportunity and in doing so, not only positioned SoFi for long term sustainable success, but to be the company best positioned to be the winner that takes most in consumer FinTech. Now we'll run through the highlights of the financial results for the quarter. We achieved record total adjusted net revenue of 322 million dollars, up 49% year-over-year and 15% higher than the prior record set in Q4 2021.

Strong growth in all three business segments drove these record results. Lending adjusted net revenue of 244 million dollars increased 45% year-over-year and 17% sequentially despite the sixth extension of the moratorium on federal student loan payments, which has kept our student loan origination volumes at less than half of pre pandemic levels. Financial services adjusted net revenue of nearly 24 million dollars increased 264% year-over-year with the largest contributions coming from record SoFi Money revenues and continued strength in SoFi credit card, SoFi Invest and lending as a service. Technology platform adjusted net revenue of nearly 61 million dollars increased 32% with record Galileo revenues and a small contribution from our new Technisys multi-core technology business. Adjusted EBITDA of nearly 9 million dollars increased 110% year-over-year and 89% sequentially.

We are also very pleased with the member and product growth we achieved in the first quarter. We added 408,000 new members in Q1 22, our third highest quarter of new member adds, ending with nearly 3.9 million total members, up 70% year-over-year. Notably, maintaining this growth momentum while opening the new bank was no small feat for our team. At a moment's notice, we had to navigate the operating and technological complexity of transitioning SoFi Money CMA accounts to the new SoFi checking and savings offering, which also required changes to our affiliate partners, as well as our marketing and advertising campaigns, creative and collateral. We added 689,000 new products in Q1 22, our second highest quarter of new product adds ending with nearly 5.9 million total products and an 84% annual increase. Financial services products of 4.7 million at quarter end grew 155% year-over-year, while lending products of more than 1.1 million were up 20%.

The significant scale that we now have in our SoFi Money, SoFi Invest, SoFi credit card, and relay member bases is driving even greater cross buying. Our number of total crossbar products in the quarter increased 22% year-over-year, demonstrating the continued success of our financial services productivity loop strategy. Our strong momentum in member, product and cross by growth also reflects the success we have achieved in building the SoFi brand over the last year. We committed to investing more in product and brand marketing once we've reached the appropriate scale and unit economics last year. That investment is already paying off well beyond our expectations, and we're just getting started. We took a giant step forward in achieving our goal of becoming a household brand name via our SoFi Stadium affiliation, the success of our integrated multimedia campaigns and the virality of the influencers we partnered with. Our marketing team worked with 30 content creators across TikTok, Instagram, Twitter, and YouTube with a combined reach of more than 300 million throughout the NFL season and the post-season. Their efforts amplified the branding of SoFi and SoFi Stadium, and together drove more than 270 million impressions.

Our unaided brand awareness, which had already increased more than 70% throughout 2021, more than doubled on Super Bowl weekend to an all time high. We generated the highest SoFi related search volume of all time on game day with nearly 230,000 and the most new visitors to our site since the meme stock craze in January of '21. And even without an ad, SoFi had nearly five times more online searches than the top performing Super Bowl ad that aired.

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Now I'd like to discuss how our strategy to build the only vertically integrated one-stop shop for digital financial services has resulted in a uniquely diversified business model.

In lending, we originated a record of more than 2 billion dollars in personal loans in Q1 2022, up from 1.6 billion dollars in the fourth quarter of 2021 and 1.3 billion in Q1 of 2021. Our results reflect years of investing to maintain an attractive credit profile and increasing our ability to capture more share of the trillion dollar market. Our personal loan performance more than offset the continued lack of demand in student loan refinancing and the under performance of home loans as we transition and onboard new fulfillment partners.

We're also seeing the benefit of our ongoing investment to build and maintain a robust risk management framework in the current rising rate environment. We are constantly iterating, learning and iterating some more while using data that goes well beyond traditional industry-specific underwriting data to drive the innovation in our credit underwriting models. We're also increasingly leveraging machine learning tools to improve the member experience throughout the funnel from application to income verification to approval. Because of these disciplines, our personal loan delinquencies and life of loan losses remain at record lows, even as we hit new origination records, while demand to buy SoFi's personal loans has remained robust. The profile of our borrow is very attractive to loan buyers. Our personal loan borrowers' weighted average income is \$160,000 with a weighted average FICO score of 746, while our student loan borrowers' weighted average income is \$170,000 with a weighted average FICO score of 775. Let me say those in numbers again, given how impressive they are. Our personal loan borrowers' weighted average income is \$160,000 with a weighted average FICO score of 746, while our student loan borrowers' weighted average income is \$170,000 and weighted average FICO score of 775. We are also differentiated in lending by the strength of our balance sheet and the diversification of our funding sources. Today, we have 5.5 billion dollars of book equity on our balance sheet and about 7 billion dollars in warehouse facilities we can access to fund loans. Not to mention the more than 1.5 billion currently of SoFi checking and savings deposits we've raised so far at SoFi Bank, which are growing by a hundred million dollars weekly. As we scale the bank, we are gaining even more flexibility in lending. We are already achieving savings by using our own deposits rather than warehouse facilities to fund loans.

We've just started moving towards holding loans six months on average versus three, which allows us to collect more net interest income. This also creates a more rational pricing environment for our paper as we leverage our ability to hold loans for longer, should pricing not be acceptable. And we can now introduce new loan types and pricing models that improve our competitive positioning.

In financial services, we've continued to achieve strong member and product growth by iterating on products to ensure they are differentiated by four key factors: fast, selection, content, and convenience, and continuing to invest to make them work better when they're used together. We finished the first quarter with 4.7 million total financial services products, a 111% annual increase, and more than four times our total lending products of 1.1 million. The more scale in financial services products creates even more scale in cross buying and thus, large marketing efficiencies. Just one year ago, that ratio was 2.4 to one. And two years ago, lending products actually outnumbered financial services products by a factor of 1.6 to one. Members have embraced the product launches in financial services introduced in the first quarter. We launched margin lending in SoFi Invest, which was one of the most common member requests. Another common request is extended hours trading, which we will launch in the coming weeks, and options, which we are targeting introducing by year end. We introduced no fee crypto transactions for

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SoFi Money members that do direct deposit, and we are assessing other possible crypto products to provide even more value to our members. Last, but certainly not least, SoFi checking and savings provides an unmatched value proposition through an industry leading APY of up to 1.25%, a host of free features and a unique rewards program. The strategy is paying off as we've seen strong growth in direct deposit accounts and spending while deposits have accelerated further since we announced the APY increase of 25 basis points last month.

Transitioning now to our technology platform, which remains a critical element of SoFi strategy, allowing us to innovate at a rapid pace while providing diversified high return revenue streams and an efficient cost structure. Already a market leader among US based neobanks, Galileo continues to expand its client base to include B2B and enterprise clients as adoption of modern cloud based digital payments and banking has opened up new verticals, client types, use cases, and opportunities. For example, we launched two new clients in the first quarter that offer innovative working capital models for B2B and small to medium sized businesses.

Technology platform enabled client accounts increased 58% year-over-year in the first quarter to 110 million through new client acquisition and growth from existing clients. The large installed customer bases of Galileo's clients also provide unique growth opportunities for existing capabilities like instant provisioning, dynamic fraud engine, and two day early paycheck, as well as financial and engagement products in our pipeline that can drive greater customer activity, like instant funding and direct deposit switching. Our March acquisition of Technisys further differentiates our technology platform by allowing us to incorporate a next generation multi-product core banking technology into our lending and financial services platforms. And it enhances our value proposition for Galileo clients. This type of vertical integration enables faster innovation and growth, as well as greater operating efficiencies. Technisys also brings a complimentary footprint of established banks, digital banks, and FinTechs in Latin America, adding to the robust growth opportunity of Galileo's existing presence in Mexico and Columbia. Galileo and Technisys are already going to market together to offer new products and services to Galileo clients looking to expand their lineup. Early reception among existing Galileo and Technisys clients in the US and LATAM has been very positive.

I'll finish here by saying that we have been in an all out sprint over the last four years to build out our digital product suite to meet our members' needs for every major financial decision in their lives and all the days in between. The benefits of our strategy to build a uniquely diversified business combined with the national banking license, not only positions SoFi to be the winner takes most in the secular transition of financial services to digital, but also provide greater durability through a market cycle. I'm excited about where we are today and where we can go from here. With that, let me turn it over to Chris for review of the financials for the quarter.

Chris Lapointe:

Thanks, Anthony. Overall, we had a great quarter with strong growth trends across the entire business. We exceeded our financial guidance while achieving record revenue and our seventh consecutive quarter of positive EBITDA, despite operating in a rapidly evolving macro environment.

I'm going to walk you through some key financial highlights for the quarter, and then share some color on our financial outlook. Unless otherwise stated, I'll be referring to adjusted results for the first quarter of 2022 versus first

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quarter of 2021. Our GAAP consolidated income statement, and all reconciliations can be found in today's earnings release and 10 Q filing.

For the quarter, we delivered record adjusted net revenue of 322 million dollars, up 49% year over year, and up 15% sequentially from the prior quarter's record of 280 million dollars and 37 million dollars above the high end of our guidance of 280 to 285 million. We also delivered 9 million of adjusted EBITDA, which came in \$4 million above the high end of our guidance of zero to 5 million.

Looking at some of the annual trends, we've generated 1.1 billion of adjusted net revenue over the last 12 months, a 49% increase from the same prior year period. In addition, our Q1 annualized run rate was nearly 1.3 billion dollars of revenue. We also generated 35 million dollars of positive EBITDA over the last 12 months.

Now onto the segment level performance where we saw strong growth and record revenue across all three segments. In lending, first quarter adjusted net revenue accelerated for the second quarter in a row and grew 45% year over year to 244 million dollars versus 30% in Q4 21, and 21% in Q3 21. Growth in lending was driven by 82% year over year growth in net interest income and 29% growth in non-interest income. Growth in net interest income was driven by improvements in NIM, both yield and cost of capital, an increase in loan balances, which grew to 7 billion dollars, predominantly as a result of holding loans for a longer period of time, a very early benefit of having the bank, as well as 30% growth in funded volume.

The largest contributor of funded volume growth was our personal loans business, which grew 151% or 1.2 billion dollars year over year to 2 billion dollars in originations for the quarter, a new high for us, and up 23% sequentially. This origination number is more than double our quarterly pre pandemic average of \$933 million dollars in 2019. We were able to achieve this growth while maintaining our stringent credit standards and disciplined focus on quality. Our personal loan delinquency rates and charge off rates have improved year over year. In Q1, 90 day personal loan delinquencies as a percentage of loans on the balance sheet improved to 14 basis points in Q1 22, while our annualized personal loan charge off rate was 1.0%. Both 90 day delinquency and annualized charge off rates in our student loan refinancing business also remained extremely healthy at five basis points and 27 basis points respectively. The increase in non-interest income was driven by growth in originations, strong sales execution, and prudent hedging.

The lending business delivered 133 million dollars of contribution profit at a 54% margin, up from 88 million a year ago, and a 52% margin. This improvement was driven by ops efficiencies and fixed cost leverage.

Shifting to our tech platform where we delivered net revenue of 61 million dollars in the quarter, up 32% year over year versus a tough comparison driven by stimulus benefits and a rapid evolution from cash to digital payments in the same prior year period. Galileo contributed record revenue while Tech nisyts contributed a small amount following the close of the transaction in March.

Overall revenue growth was driven by 58% year over year Galileo account growth to 110 million in total. We also signed 10 new clients, two of which are in the B2B space, further diversifying our partner base. Contribution profit of \$18 million represented a 30% margin, which is in line with the 20 to 30% margin range we have guided to in the near term, given the opportunities for growth. As discussed previously, we remain committed to investing in the

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platform to ensure that our tech platform is well positioned to capitalize on the secular shift from physical to digital payments and rising overall demand for more FinTech services.

Moving on to financial services where adjusted net revenue of 24 million dollars increased 264% year over year with new all-time high revenues for SoFi money, which is now transitioning to SoFi checking and savings, and continued strong contributions from SoFi credit card, SoFi invest, and lending as a service. Improved monetization and exponential growth in financial services products drove our performance. Annualized revenue per financial services product increased 73% year over year. And the number of products grew 2.2x year over year to 4.7 million in Q1 22. All products were up approximately 100% year over year, and SoFi credit card was up 500% year over year. We hit 1.6 million products in SoFi money, 1.8 million in SoFi invest, and 1.1 million in relay. Contribution losses were 50 million dollars for the quarter, which increased year over year, predominantly as a result of now having a credit card business and needing to build our CECL reserves, which is expected as we continue to grow in scale. As of the end of Q1, the reserves are in line with industry peers. Excluding these reserves, contribution losses were \$36.5 million, or up \$1 million year over year.

The next thing I want to address is our balance sheet. Overall, we are very well capitalized with ample cash and excess liquidity. The recent opening of SoFi bank only reinforces the strength of our balance sheet and provides us with more flexibility and the ability to further lower our cost of capital. In Q1, our balance sheet grew by approximately 3 billion dollars, and that was driven by three factors. First, cash, cash equivalents, and restricted cash increased by approximately 900 million dollars, primarily as a result of an increase in pledge activity to capitalize the bank as well as increases in deposits at SoFi bank, which totaled 1.2 billion dollars at the end of the quarter. Second, loan balances grew approximately 1.2 billion dollars as a result of holding loans for a slightly longer period of time. And third, we had a 900 million increase in goodwill and intangibles related to our acquisition of Technisys.

We exited the quarter with 2.8 billion dollars drawn on our warehouse facilities, which is approximately 40% of our overall 7 billion dollars of capacity. Our current book value is 5.5 billion dollars, and our capital and leverage ratios are extremely strong, both at the bank and at the bank holding company level.

Alright, I'll finish up with guidance. Throughout the last 12 months, we have demonstrated the benefit of having a diversified set of revenue streams and a keen focus on continuing to underwrite high quality credit. We expect those benefits to persist going forward, particularly in light of the existing macro backdrop. For Q2, we expect another strong quarter of growth with 330 to 340 million dollars of adjusted net revenue, up 39 to 43% year over year, and expect five to 15 million dollars of adjusted EBITDA.

For the full year of 2022, we are raising guidance and now expect to deliver 1.505 to 1.510 billion dollars in adjusted net revenue, exceeding our recently provided full year guidance of 1.47 billion, and expect to deliver adjusted EBITDA of 100 to \$105 million dollars above our recently provided guidance of 100 million. Overall, we couldn't be more proud of our Q1 results and continued progress. Having delivered nearly 1.3 billion dollars of annualized revenue and our seventh consecutive quarter of positive EBITDA, we continued to make great progress against our long-term growth objectives in Q1 22 and remain very well capitalized to continue pursuing our ultimate goal of making SoFi a top financial institution. With that let's begin the Q and A.

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Jason:

Thank you. If you'd like to ask a question, please press star followed by one on your telephone keypad. If for any reason you'd like to remove that question, please press star followed by two. Again, to ask a question, press star one. Only one question and one follow up, if you have any questions. If you have any additional questions, rejoin the queue. We will pause here briefly as questions are registered. Our first question comes from Dan Dolev with Mizuho. Please proceed.

Dan Dolev:

Hey guys. Hey, Anthony. Hey, Chris. Great quarter here.

Chris LaPointe:

Hey there.

Dan Dolev:

Hey guys. I have sort of like a, maybe a longer term question and I think I was actually surprised to see the stock trade down today so much. And I think a lot of it had to do because you reported after Upstart. And I think there's a lot of confusion out there in the market from the calls that we're getting from investors about the nuances and the differences between the quality of SoFi and some of your competitors. Can you maybe talk to what people are misunderstanding here and what they're missing when they're sort of putting you in that group? Thank you.

Anthony Noto:

Thanks, Dan. I'll, I'll start and hand it over to Chris to talk about the demographics and the credit profile of our member. I would say the biggest difference between SoFi and all the other, call it FinTech 2.0 companies moving Square and PayPal out of that equation, the more recently public companies. The biggest difference is we're building a one stop shop with a broad suite of digital financial products for our members. We're trying to build a lifetime relationship with them to be there for every one of the major financial decisions in their lives and all the days in between. And we're doing that through a vertical integrated model so that we have best of breed products from the consumer standpoint, but also best in breed economics. And that'll allow us to have a competitive advantage. And as we build that broker integration, we're building technologies that we're turning into businesses as we have with Galileo and Technisys, and that results from a financial standpoint with a highly diversified business.

Within our lending segment, we have four different types of loans. We're not just in personal loans. We're also in student loan financing. We're in school loans, and we're in mortgages. Within technology platform, there's two primary businesses there, but there's more to be added in Technisys and Galileo. And they're incredibly complimentary. It's a very high margin business, accelerates our rate of innovation, giving us a low cost advantage, and giving us a return on our own technology development, and lifting all buoys for the industry.

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And in our third segment, the financial services segment is highly diversified with SoFi checking and savings, SoFi invest. Even within SoFi invest, we're not just in crypto, we're not just in single stocks, we're also in ETS. We're also in robo accounts. And then we have a credit card, which over time we will build out that portfolio. We have one today. We also do insurance as a lead generation business. We have the lantern and relay businesses. So we're very diversified, and one of the biggest reasons why we've been able to navigate the challenges of the last four years, and there have been multiple challenges every year, whether it's economic or industry-related or credit-related is because we have that diversification and can reallocate our resources toward the best growth opportunities. And that's why we continue to deliver record revenue despite the negative impact on the student loan moratorium.

The last big thing I'd mention, and Chris will give you the details, is we're going after a high-end customer, mass-affluent, high net wealth individuals that have a great credit profile, high income, and they need the products and services that we've developed. And most of the big banks have walked away from that broad suite of products. They don't offer mortgages. They're not in brokerage, or they don't have personal financial management, or they don't have career advice. And so, that results in us having a pretty diversified business. We've been EBITDA profitable for the last seven quarters, and we're on our way to being GAAP profitable. And we're generating positive cash flow from EBITDA and building our book value. And we have substantial book value, but that's the sort of biggest way to describe how we're positioned. I'll have Chris give you the details on our income and our credit profile.

Chris Lapointe:

Yeah, thanks, Dan. What I would say is just echoing what Anthony said, our demographic and credit profile of our member base is extremely strong. And we're seeing that play into our results. The weighted average income of our student loan refinancing borrowers is \$170,000 with an average FICO of 775. The average income of our personal loan borrowers is \$160,000 with an average FICO of 746. And then our overall credit profile and risk metrics are trending really well both on a year over year and sequential basis. In terms of 90 day delinquencies, our PL 90 day delinquencies are at 14 basis points, which is down year over year and sequentially. And our student loan refinancing delinquencies remain really healthy at just five basis points. And then from a charge off perspective, those remain really healthy as well and are trending in the right direction with our personal loans, annualized charge off at 1.04%, and student loan at 27 basis points.

Anthony Noto:

And the last thing I'd add is we have the most unique funding strategy and distribution strategy that makes us a low cost operator in lending. We built the business end to end, we own it from metal to glass, but we've also built out diversified distribution of our loans. We can sell whole loans, which is a great diversified market for us. We can hold loans because we're a bank. We use deposits to fund them at a low cost, and we can access the ABS market if and when we think it's appropriate. And so we have a great competitive advantage and low cost, but also an ability to get really strong premiums for the credit that Chris just described through the broad distribution we have from our capital markets.

Dan Dolev:

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Got it. Thank you. Super helpful. And can I ask one quick follow up here? We're getting some questions today, post that on the EBITDA for the second half. I know. I mean, we've done the work. We know it has to do with the lower duration and deposits, but maybe can you, Chris, can you quickly bridge for investors sort of the bridge from where we are in the first and the second quarter to that 40 million-ish ramp in the second half? That would be helpful, and thanks again.

Chris Lapointe:

Yeah, yeah, absolutely. So we aren't providing specific segment level or product level detail, but to at least help folks think about the bridge from where we are to the 100 and 105 million dollar guide. I would think about it in two buckets. First, the bank is going to start contributing much more meaningfully in the back half of this year. We're really proud to say that all new applications for our lending products are going through the bank as of a few weeks ago. Deposit growth is going extremely well, and as a result we're going to start benefiting from a lower cost of capital, and we're going to start seeing the benefits play out of being able to hold loans for a longer period of time at scale in the back half of the year. And then the second thing, the second bucket is related to growth in some of our higher margin businesses, specifically our personal loans business and Galileo. So collectively, those are the main things that would bridge us from where we are today to the guide.

Dan Dolev:

Got it, thank you so much again. Great quarter.

Anthony Noto:

Thank you, Dan.

Jason:

Thank you for your question. Our next question comes from John Hecht with Jefferies. Please proceed.

John Hecht:

Afternoon guys. Yeah, echo those congratulations on good numbers in a choppy environment. So my first question is just, I know it's very early on, but maybe can you give us kind of your perspective on early progress within the bank, and kind of what KPIs you're looking for, what we should look out for over time?

Anthony Noto:

Yeah, thank you John. One of the key strategies of having the bank license is being able to offer a super differentiated checking and savings account. When we originally launched SoFi Money, we were not a bank back in 2019, and we were sort of beholden to the interest rate that we could get from suite partners. But now as a bank, we can offer the interest rate that we think is most attractive, and currently, we're offering up to 1.25% on checking if you do direct deposit with us, and you get a host of other benefits as a member and other benefits in that account.

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We charge no fees, we do free roundups, we have overdraft protection, you get a free certified financial planner, our relationships in addition to all the other breaks you get on other loans, et cetera. We've seen tremendous uptake of that product since we launched it. I will say, and this was in my prepared remarks, it was incredibly challenging waiting for the Federal Reserve and the OCC to give us the final approval. It wasn't clear when they were going to do it, or if they were going to do it given the political environment we're in. And so we were sitting ready with marketing and collateral and plans, and technology and operations ready to flip the switch. But once we did that, it took a while to get things rolling in Q1, and we came out of Q1 and Q2 really seeing the benefits. Our direct deposit uptake is up 60% on a conversion basis, and the number of direct deposit accounts added per week has doubled in Q2 versus Q1. And as Chris mentioned, we're up to over 1.5 billion deposits, and it's growing about \$100 million in deposits per week. And the feedback from an NPS score basis is really strong. So we couldn't be happier with that competitive advantage that we now have.

As we bring people in through the top of the funnel, it increases the amount of cross buying we have, and as you know in a personal loan product, we double our variable profit per loan when someone cross buys with Money or Invest into that. And Money is really one of the products things started with, as is Invest and Relay, and our customer acquisition cost there are very attractive, and we're actually leaning in even more, because the LTV is proving out to be even higher than we thought based on early indications. So really happy with that product.

The second thing I'd say is, it took a while to get the bank and go through the process, and there were plans that we had specifically like the checking and savings account, and funding our new loans in the bank. But there are other opportunities that are now coming to light, such as having a sponsored BIN business that we can partner with Galileo on. They have B2B partners that they're adding. There's a lot of demand in B2B channel. Well we can be a sponsor bank in B2B, and so that's a new revenue stream that we're working on with the regulators to launch, and with our partners there. So there's a number of other things that will come down the pipeline as a result of having the bank that weren't contemplated until we actually got the license.

John Hecht:

That's very helpful, appreciate all that detail. A follow up question, yeah maybe just because it's been a volatile market, I think credit spreads are drifting around, and obviously interest rates are moving upward, maybe talk about the components of the gain on sale, and is there any kind of different trends you're observing on your different asset types, and kind of the outlook for that?

Chris Lapointe:

Yeah, I can take that one John. So what I would say is that there are a few important things to know when thinking about the overall trends and gain on sale margins, especially on a quarter to quarter basis, and there are a number of factors that play into that, most predominantly rates, spreads, and then obviously the price that we're charging on the loans that we sell. In addition to those factors, it's really important to incorporate the impact of hedge gains and losses, which are critical, particularly in an environment that we're in right now. So in Q1, our gain on sale margins excluding hedge gains were 4.2%, and they were north of 4.5% once you include hedges associated with loans sold in period. Our student loan refinancing business had gain on sale margins of 1.5% excluding the hedge, and north of 4%

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once you include the hedges. And then our home loans business was negative 50 basis points excluding the hedge, and north of 2% once you include the hedges. So they've been relatively consistent on a hedge basis over the course of the last several quarters, and we expect them to be able to maintain that.

The only other thing I would say as it relates to our lending business is that we obviously seek to maximize profit dollars in our lending business, and to stay within a 40-50% contribution margin range, and we obviously have a number of levers to do that. Despite the rapidly rising rate environment that we've been going through over the course of the last quarter plus, we were still able to deliver \$133 million of contribution dollars at a 54% margin across our entire portfolio, even as rates went up 80 to 150 basis points across the curve.

Anthony Noto:

And one of the other things I would just add John, for the benefit of those maybe weren't that close to the company back in '18 and '19, when we joined in 2018, Michelle and I were looking at four to five rate increases throughout '18 and '19, and we rapidly developed a strategy of being able to test six different six by six grids simultaneously in the marketplace. And at that time, the company really only had the ability to test two prices. We spent the better part of 2018 not just testing all these different prices and building that capability, but also understanding the unit economics by marketing channel and perfecting that over time. So the level of sophistication we have in marketing, pricing, and credit is really built over the last four years. So as rates are going up, even though our funding costs are going down, we are being prudent about making sure we have the right price for the right credit through constantly testing and also leveraging different channels that we know have certain types of lifelong losses and quality performance.

In addition to that, we have a warning framework that our risk team has built out that we actually executed at the beginning of 2020, the beginning of the pandemic, to make sure that we're in a position to be able to pull back if economic conditions start to provide these indicators that are at risk. So we're playing on both ends of the spectrum, offensively with pricing and channels, and then if the market turns over in some way that's not what was predicted, we can also pivot back the other way.

John Hecht:

Wonderful guys, thanks very much.

Anthony Noto:

You're welcome.

Jason:

Thank you for your question. Our next question comes from Dominick Gabriele with Oppenheimer. Please proceed.

Dominick Gabriele:

Hey, thanks so much for taking my questions, and great results. If you just think about your investment initiatives, how many of those changed since the end of the year '21 versus today, since the market seems to be signaling a changing consumer environment? Have you changed any of your kind of investment dollar things for your various business mix? And then I just have a followup. Thanks so much.

Anthony Noto:

The answer is yes, and it's been like that every quarter since we launched the business. We do an annual planning process that starts in the fall. This sets the priorities for the company for the following year. We did that in September and October, we laid out six priorities. The team then does their bottoms up financial plans against those six priorities, and then we start the year. Around mid-February, we start what's called a March revised forecast, which will be a revision of the plan based on everything we've learned.

And so all the market conditions that change from December, January, February, and the performance of our business get factored into that revised forecast. We go through that same process every quarter. That's what allows us to assess where are things going well, where are things more challenging than we thought, how do we reallocate our resources against that umbrella of six priorities to deliver the results? And we do a weekly latest call process as well, evaluating all the nitty gritty details across all our funnels and our products and our financial performance, so that when we go into that revised forecast, we're not starting from scratch. We've built a backup of seven or eight weeks of actual results in the quarter, and what we're seeing in forward curves and the competitive environment, et cetera. So it's a constant process, and when you have the diverse set of businesses that we have, it gives you a lot of advantages and you're not stuck in one silo.

I'm not going to give you the specifics because it's multifaceted, but obviously the personal loans business is much better. We saw that opportunity and we leaned into it. Student loans business got negatively impacted by the president's unexpected extension of the moratorium. We pulled back significantly in the marketing there and reallocated it. In fact, we're starting to reallocate more aggressively to things like checking and savings, because we're seeing the flow through the loans and higher LTV justifying more investment there. So it's a constant data driven process.

Dominick Gabriele:

Great. And then just for my followup, if we just think about the moratorium versus the floating idea of perhaps even \$10,000 of debt relief within student lending, how does that impact the business versus the moratorium? And I really do appreciate the early remarks on the high income customers, I would assume those folks maybe took out larger loans on average than just the average loan person within student there. So any color you could provide on how that might affect your business and how you're thinking about that dynamic, between the moratorium and the \$10,000 per person debt forgiveness? Thanks so much.

Anthony Noto:

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Yeah, absolutely. And I'll try to take a broader perspective on this to educate those that may not be aware. So prior to the pandemic, our student loan refinancing business had an average loan size of about \$70,000, so the average loan that was being refinanced was \$70,000. And we were doing over \$2 billion of quarterly refinancing. Since then, we've operated at 50% or below other than the fourth quarter when people thought the moratorium was going to end in January, and we saw a big surge in late November and December.

So about \$70,000, the demographics Chris mentioned have generally been the same. What people should understand is, anyone that's already refinanced with us would not be eligible for a federal student loan forgiveness, because they now have private loans. The federal student loan forgiveness that's been talked about has ranged from \$10,000 for everybody, to \$10,000 for those that were economically below a certain income class, to \$50,000 for everybody. What President Biden campaigned behind was \$10,000 of forgiveness for those that had a need. He didn't quantify it. What's been talked about more recently, the president has said, "I'm not interested in \$50,000 of forgiveness per person," and his advisors have pointed more towards \$10,000 of forgiveness below a certain economic level.

There's a lot of debate on economic level. I've heard everything from \$75,000 of income to \$125,000 of income. The best thing for SoFi and for SoFi shareholders in our business is if he announces... well, the best thing is that he ends the moratorium and we just move on, but that's unlikely. What's more likely is some level of forgiveness. If there is some level of forgiveness, \$10,000 and below I think would be great for our business. Now, you may say even if that applies to everybody, even if it applies to everybody, there's a cohort of people that have been waiting and waiting and waiting for student loan forgiveness, and they have not refinanced. And that's in our demographic as well. Once there actually is forgiveness, there's nothing to wait for anymore. You now know what the plan is, and you have to make a decision. Well if you had \$70,000 in loans, which is our target market, and you get \$10,000 in forgiveness, you still have to refinance \$60,000.

But the number of people that will be refinancing will be magnitudes greater than it was in the past, because there's really no reason to wait any longer, especially with rates going up, and there's likely not going to be a second wave of forgiveness. Whether there's \$10,000 in forgiveness for people of \$125,000 income or lower is really advantageous to us, given the demographics that we set at a weighted average income of \$170,000, and so that's the way I would think about it.

In terms of our financial guidance, we've assumed that the moratorium will extend all the way through 2022. So our guidance that Chris mentioned of 1.505 billion, and 1.510 billion, is an assumption that the student loan business does not recover and in fact it continues to be relatively depressed, and it could wane even more.

Dominick Gabriele:

Excellent, thanks so much for all that color.

Anthony Noto:

You're welcome.

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Jason:

Thank you for your question. Our next question comes from Mike Ng with Goldman Sachs. Please proceed.

Mike Ng:

Hey, good afternoon. I just wanted to ask about the origination outlook for home loans specifically. I know you called out some fulfillment partner issues. Can you just talk a little bit about whether you see that easing in the back half, and could home loan originations accelerate? And then could you also just talk about the backdrop of competition and the softening refinance environment? How does that affect how you think about home loan origination for this year and next? Thank you.

Anthony Noto:

Yeah, we do have an opportunity to significantly improve the value proposition to our members in home loans, and our execution on the operational side. The execution and operational side is what's holding us back. We have moved from an existing partner to one entirely new partner. In doing that move, things haven't proceeded as fast as we'd like, which is a great highlight for how the diversification of our business allows us to overcome something that's underperformed. Two things have happened in the home loan business. One, we've moved to that new partner, and there's growing pains and execution pains there. At the same time, the team has had the additional challenge of the mix of home loans moving from refinancing more towards purchase. Purchase is a different operational process as you can imagine, and it's really critical in those scenarios that you hit closing dates, et cetera. We're erring on the side of trying to provide the best level of service we can, and so we really haven't stepped on the gas pedal as it relates to driving top of the funnel demand. Because we want to make sure we can get the backlog of loans that we have in the system, especially when purchased through this system successfully.

There are definitely challenges there, and we underperformed in the quarter. I'm confident the team has the right plan, and it will work its way out throughout the course of the year. It's a product our members love. Still, 60% of the home loans we do, or more, are from our existing members. It's one of the most important financial decisions they'll make, it's one of the probably biggest emotional decision that they'll make, and we need to be there for them and give them a great product and a great service. It's still a huge opportunity for us, given how few loans we've done for our members and the magnitude of the user base that we now have. Not to mention stealing share as a first product.

Mike Ng:

Great, thank you very much for those thoughts, Anthony.

Anthony Noto:

Good, thank you.

Jason:

Thank you for your question. Our next question comes from Mihir Batia from Bank of America.

Mihir Batia:

Hi, thank you for taking my questions. Maybe just to start, can you just talk about your macro expectations for the rest of the year?

Anthony Noto:

Yeah, absolutely. In terms of the overall macro expectations, we are assuming that rates will continue to increase. What we've baked into our forward guidance is that we would have seven additional rate hikes between now and the end of the year.

Mihir Batia:

Got it. Then the rest of it, any other color you can provide beyond just the rate hike? Just what are you assuming for, I guess? Unemployment, consumer health, those kinds of things. Anything at all that you can provide there?

Anthony Noto:

Yeah, we're assuming that the inflationary environment stays somewhere to where it is today. We are not assuming a recession. We do have early warning frameworks that will allow us to get in front of some type of deterioration, the economy that's of the magnitude that would have an impact of life of loan losses. We've been doing this for four years, and lived through this cycle before. We'll be vigilant on that front, but right now, those indicators are showing a relatively strong demand and a relatively stable economic environment. As Chris mentioned, the performance of our credit has been quite positive.

Mihir Batia:

Great. No thank you, that's helpful. That's quite consistent with what we've heard from others too, so I think that's good. I think one other question I just had, just to follow up in terms of... I think John asked about KPIs within the bank earlier, and I apologize if I missed this. But did you give the direct deposit penetration rate maybe with your members, and just the amount of cross sell you're seeing between bank deposit holders and your other loans? Thank you.

Anthony Noto:

We have not given the specific numbers and specific KPIs. That's something we'll evaluate over time. The only thing I said was that the weekly ads have doubled since we wrote payment to Q2 versus Q1, and on prior calls, we had seen a good ramp increase based on our strategic focus in the area by adding critical elements of value to the equation. But the checking and savings conversion and the high interest rate of 1.25% have really taken it to the next level. As I mentioned, it's up 2.7 times in Q2 versus Q1, and we've seen an increase in conversion of account funded to direct deposit of 60%, greater conversion.

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Mihir Batia:

Understood, thank you. No, and good execution again for the quarter, thank you.

Anthony Noto:

Thank you.

Jason:

Thank you for your question. Our next question comes from Tim Chiodo with Credit Suisse. Please proceed.

Tim Chiodo:

Great, thanks a lot for taking the question. I wanted to dig into the financial services segment for the noninterest income. Strong growth year over year, absolutely. But when we looked at it on a quarter over quarter basis, maybe there's just some seasonality there. Maybe you could just help us in the modeling of how we should think about the non-interest income for that segment into Q2, Q3, and really for the rest of the year.

Chris Lapointe:

Yeah, I can dig that one, Tim. What I would say is, we saw really good momentum year over year as you alluded to. Quarter over quarter, we saw a sequential growth in products about 15%. Money and credit card combined delivered \$10 million of revenue in the quarter. That was up \$2 million, or 22% sequentially. That was primarily driven by interchange, as well as some NIM. Our Lantern and Pagaya businesses combined, our lending as a service delivered \$8 million on the quarter. That was up \$2 million sequentially, or 30%. Then our invest business delivered \$5 million of revenue.

What I would say in terms of the forward outlook. Again, we don't provide it at the product level. But we do expect to see continued strong momentum and growth in product count across all of the products, as well as improvement in monetization. If you would look at our annualized revenue per product in the financial services business, that was up 73% year over year. We've made really good improvements over the last several quarters in continuing to monetize those products and members, and we expect that to continue going forward. The way that's going to increase is through continuing to drive AUM, continuing to drive spend. We're seeing really good trends in that. Right now, especially opening the bank, and then obviously launching new products and features like options that we expect to do by the end of this year.

Anthony Noto:

Then one thing to remember. I think people know this, but just in case. We'll have the bank for a full quarter in Q2, which will benefit that segment, versus only one month in Q1.

Chris Lapointe:

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Yeah.

Tim Chiodo:

Excellent. Great, thanks a lot, Chris. Really, Chris, we appreciate that. The other one was just a quick follow-up. You made a comment that kind of caught my attention in the prepared remarks around strong new accounts at Galileo for sure. But then also, you mentioned in terms of new customers, a couple that were in the B2B area. If you could just put some additional context around that, that would be greatly appreciated.

Anthony Noto:

Our product at Galileo, the platform lends itself not just to consumer driven businesses. But Galileo has been a leader in the B2C space and neobanks since its inception. Since we've bought it, we've seen an increasingly amount of demand in the enterprise space. The number two partner within Galileo, which has been number two for years is actually an enterprise customer and not a consumer customer. It has that flexibility, and so we've signed a number of enterprise partners, some of which that is for accounts payable, accounts receivable payments and working capital, in addition to other types of businesses that are in the gig economy. We're not naming specific names, we'll announce those in conjunction with our partners as opposed to during our earnings call. But that's increasingly a big channel for us, and we have a product pipeline to better serve the enterprise and SMB space holistically based on the demand we're seeing.

Tim Chiodo:

Excellent, thank you, Anthony. I appreciate you guys both taking those questions.

Jason:

Our next question comes from Jeff Adelson with Morgan Stanley. Please proceed.

Jeff Adelson:

Hi, good evening, Anthony and Chris.

Anthony Noto:

Hi there.

Jeff Adelson:

I just wanted to understand the trajectory of personal loan growth here, and your assumptions the really nice quarter for that line. What kind of growth maybe are you assuming in your guidance for the rest of the year? Then just as you look under the hood there, are you seeing more demand from your customers for that product? If I understood Anthony's correctly earlier, it sounds like you're putting more marketing dollars at that area. Could you

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also help us understand how your ability to pass through interest rates is going there? It looks like from the queue, you were able to increase the rate there about 40 bits Q on Q, and you've got the two year rate going up 160 bits roughly. I just want to understand all those little drivers there.

Anthony Noto:

Yeah. On the personal loan side, I'll let Chris talk about the outlook. In terms of driving demand, I note a couple of macro things, and then things that we're doing on the micro side. As interest rates go higher, we saw this in 18 and 19. We see people refinancing at a variable rate debt, like credit card debt and other high rate variable debt into fixed rate term loan debt. Our product is really conducive to doing that, and we capture that demand. Additionally, as rates go higher, if you go back and look at our advertising in 2018 and 19, you'll see we have a use case advertising behind home improvement. As interest rates go higher and individuals look to remodel their homes instead of buying new homes, that product also benefits.

One of the things that we can do now that we weren't that able to do in 2018 and 19 is we can market the product to our existing customers. When we were going public, we provided a presentation that showed you the percent of our loans that were cross bought, and it's average is in the 20 to 30% range. As the business has grown, it's stayed in that range and that's a really efficient way for us to market to our customers. We'll be leveraging that through this environment as well. In terms of the trajectory of it and the outer quarters, I'll let Chris talk to that.

Chris Lapointe:

Yeah. In terms of the trajectory, we aren't providing forward guidance on originations. But as you know, we saw really good growth at 151% year over year, and we ended up exiting the quarter with about five and a half percent market share when you look at the overall TAM of our credit logs, and that's in comparison to about 4% in Q1 of 2021. We do expect to be able to continue gaining share over the course of 2022, and if rates continue to increase, we do expect the market to continue to expand.

Anthony Noto:

The other thing I just mentioned on the marketing side, we can afford to be a little bit more aggressive on the marketing front and open the capture a little bit because of our declining monetization strategy. This is a product where we're approving 30% of the applicants. Previously, the other 70% were lost until we launched Lantern, and now lending as a service that we have in our own application process. We can be a little bit more aggressive on marketing and drive a return against that, because our declines could be monetized in those two ways.

Chris Lapointe:

Yeah. Then the one last thing to address, your final question about passing rate increases through WAC. Especially in the PL business, we've made really good progress on softly increasing pricing, and demand has remained extremely robust as you saw in the quarter. Overall, on the balance sheet and through our originations in the quarter, we were

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successfully able to raise WAC both in PL and SLR. Making really good progress there, and it's showing up in the results.

Jeff Adelson:

Then if I could just have a follow-up on the student loan side. That assuming that, the student loan moratorium does go away at year end, or even before then. Is a reasonable way of thinking about your guidance here going forward, maybe that the original 2023... I'm sorry, the original 2022 number for EBITDA of around 259 is potentially a right way to think about 2023.

Chris Lapointe:

Yeah, we're not providing specific guidance around 2023. At this point, we've shared the quarterly impact on the SLR business and the impact from the extension. But at this point, we're not prepared to talk about 2023.

Anthony Noto:

The one thing I will say is as the student loan business comes back, or if it doesn't as we exit 2022, we will go back to a 30% incremental EBITDA margin philosophy. The reason why I'm emphasizing that is there's a lot of different ways to think about shareholder value creation. We believe return on invested capital is the most highly correlated metric with shareholder value creation. I think it's better than ROE, but we'll look at both. For us to get to the return on invested capital that we think we can achieve that's in the 30 plus range, we have to have a 30% EBITDA margin and low capital utilization as we have today on the CapEx side of the equation, which generates a great flow through from EBITDA, add free cash flow, which will then build our book value. As we exit 22 with or without student loans, we'll be back to a 30% incremental EBITDA margin. If we have the benefit of the student loan business, that will just be more incremental revenue and more incremental EBITDA at a 30% rate.

Jeff Adelson:

Got it, thank you.

Jason:

That is the end of our Q&A session, now I'll turn the call over to SoFi CEO, Anthony Noto for closing marks.

Anthony Noto:

Thank you all, and thank you for everyone for joining us this afternoon or evening, wherever you are. Before we wrap, I wanted to share some final thoughts. At SoFi, we are no stranger to adversity. As we near the halfway point of 2022, there is no shortage of challenges ahead, but there has been no shortage of challenges every year since we joined back in February of 2018. With each set of unique challenges, we have risen to the occasion each time. I cannot predict the future, but I can assure you that we have the best strategy and the most diversified set of

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businesses that have delivered superior, consistent financial performance, generating both high growth in revenue and strong profits as measured by EBITDA.

We also have significant financial resources, with more than \$5 billion in capital and a battle tested team. Most importantly, I can assure you that we will work tirelessly to be prepared as best we can for whatever we face ahead, just as we have over the last four years. I love our team, I love our strategy, and I love our company and I love where I work. I wake up every day trying to be a better leader than the day before, and reminding myself that those who dare, win. Until we talk next time, thank you for your interest in SoFi and thank you for your support.

Jason:

That concludes the SoFi Q1 2022 earnings conference call. Thank you for your participation, you may now disconnect your lines.