

SoFi Technologies(Q4 2022 Earnings)

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Corporate Speakers:

- Maura Cyr; SoFi Technologies; IR
- Anthony Noto; SoFi Technologies; CEO & Director
- Christopher Lapointe; SoFi Technologies; CFO

Participants:

- Michael Ng; Goldman Sachs; Analyst
- Dominick Gabriele; Oppenheimer; Analyst
- Kevin Barker; Piper Sandler; Analyst
- Moshe Orenbuch; Crédit Suisse; Analyst
- Eugene Simuni; MoffettNathanson; Analyst
- Mihir Bhatia; BofA Securities; VP in Equity Research & Research Analyst
- Dan Dolev; Mizuho Securities; Analyst
- Ashwin Shirvaikar; Citigroup; Analyst
- John Hecht; Jefferies LLC; Analyst
- Michael Perito; KBW; MD

PRESENTATION

Operator^ Good morning. Thank you for attending today's SoFi Fourth Quarter and Full Year 2022 Earnings Conference Call. (Operator Instructions)

At this time, I would now like to turn the conference over to our host, Maura Cyr, SoFi's Investor Relations.

Maura Cyr^ Thank you. Good morning. Welcome to SoFi's fourth quarter and full year 2022 earnings conference call.

Joining me today to talk about our results and recent events are Anthony Noto, CEO; and Chris Lapointe, CFO. You can find the presentation accompanying our earnings release on the Investor Relations section of our website.

Our remarks today will include forward-looking statements that are based on our current expectations and forecasts and involve risks and uncertainties.

These statements include but are not limited to our competitive advantages and strategy, macroeconomic conditions and outlook, future products and services and future business and financial performance.

Our actual results may differ materially from those contemplated by these forward-looking statements.

Factors that could cause these results to differ materially are described in today's press release and our upcoming Form 10-K as filed with the Securities and Exchange Commission.

Any forward-looking statements that we make on this call are based on assumptions as of today.

We undertake no obligation to update these statements as a result of new information or future events.

And now I'd like to turn the call over to Anthony.

Anthony Noto^ Thank you, Maura, and good morning, everyone. 2022 was a remarkable year for SoFi. We accomplished more than any of us could have hoped for. Our resilient team drove great execution of our strategy that has proven to provide the benefits of business diversification and durability to deliver exceptional growth and improving profitability.

Our adjusted net revenue grew 52% in 2022 to over \$1.5 billion, and we delivered nearly 5x the adjusted EBITDA we did in 2021. We obtained a national bank license, which could not have come at a better time, allowing us to be incredibly flexible in a rapidly changing environment. We're offering a compelling SoFi Money product that is driving high-quality direct deposit customers spending and deposit balances.

The deposits bolster and diversify our sources of funding, enabling us to offer our best rates on loans, while generating impressive returns and improving net interest income revenue. In fact, 2022 marks the first time our Lending net interest income revenue of \$530 million by itself exceeded our total directly attributable Lending cost of \$443 million. We grew our deposits 7x to \$7.3 billion from \$1 billion over the course of the year, really powering that cycle. We grew our member base by 1.8 million to 5.2 million members, nearly 9x our size in 2018.

We acquired Technisys, adding a critical capability as we build our end-to-end technology stack and bringing us one step closer to being the AWS of fintech. We navigated unparalleled market volatility, macro headwinds, high inflation and increasing interest rates and 2 unexpected extensions of the student loan moratorium by reacting nimbly and leveraging the diversification of our business to hit record revenue in each quarter of the year.

The fourth quarter was an incredible end to an exceptional year. We delivered another quarter of record adjusted net revenue and adjusted EBITDA and strong overall operating results. A few key achievements from the quarter include our seventh consecutive quarter of record adjusted net revenue of \$443 million, up 58% year-over-year, which accelerated

from 51% year-over-year growth in the third quarter and reflects record revenue in all 3 business segments. Record adjusted EBITDA of \$70 million was up 58% quarter-over-quarter. That is nearly equal to the total adjusted EBITDA in the first 3 quarters of the year combined.

In Q4, we achieved a couple of important financial inflection points. Adjusted EBITDA of \$70 million is now largely equal to share-based compensation expense of \$71 million, a critical step toward GAAP net income profitability. Additionally, net interest income revenue, or NIM revenue of \$183 million exceeded Lending noninterest net revenue of \$144 million for the first time. And importantly, our NIM revenue is meaningfully greater than our directly attributable Lending expense of \$106 million.

In Q4, we had an incremental GAAP net income margin of 42%, resulting in a loss of just \$40 million, roughly half of the third quarter 2022 loss. Said another way, of the \$171 million of incremental GAAP revenue year-over-year, \$71 million or 42% dropped to the GAAP net income line. Given these accomplishments, in our 2023 plan, we expect to achieve quarterly positive GAAP net income in Q4 2023.

Our strategy is to continue to play out with SoFi Money, which allowed us to surpass \$7.3 billion in deposits, up 46% quarter-over-quarter, and savings of 190 basis points on cost of funds versus using other sources of debt to fund loans. Another quarter of positive GAAP net income for the SoFi Bank at over \$30 million and at an 11% margin.

Finally, we grew our tangible book value for the overall company for the second consecutive quarter. Q4 also saw our second highest quarter ever of member adds and our third highest quarter of product adds with strong momentum continuing into Q1. The 487,000 new members in Q4 2022 brings total members to 5.2 million, up 51% year-over-year.

We also added nearly 700,000 new products in Q4, ending with nearly 7.9 million total products, up 53% year-over-year. Of these new adds, Financial Services products grew by 60% year-over-year to \$6.6 million, while Lending products were up 24% to over \$1.3 million. The strength of our results once again underscores how our full suite of differentiated products and services provides a uniquely diversified business that has been not only able to endure, but to thrive through market cycles.

Now I'd like to touch on segment level results, with a particular focus on the benefits of our diversified business drivers as well as the structural advantage of our bank charter. In Lending, we generated a record of \$315 million of adjusted net revenue, up 51% versus the prior year period. Our personal loan performance more than offset the continued lack of demand in student loan refinancing and the less robust performance of home loans.

Student loan refi continues to be negatively impacted as federal borrowers again await clarity on the end of the moratorium of federal student loan payments. Home loans faces macro headwinds from high rates, while we continue the process of transitioning to new fulfillment partners.

The personal loans business maintained its strength in Q4. We originated nearly \$2.5 billion, up 50% from \$1.6 billion in Q4 2021. This product continues to deliver even as we've raised our coupons to our borrowers as a result of rate increases and maintained our stringent underwriting criteria.

While these origination levels themselves are impressive, the strength of our balance sheet and diversification of our funding sources provide new options to fund Lending growth while driving efficiency with cost savings. These advantages are a direct result of SoFi Bank. Having more flexibility with our balance sheet allows us to capture more NIM and optimize returns, a critical advantage in light of the macro uncertainty.

Additionally, by using our deposits as a funding source, we benefit from a lower cost of funding for loans. In Q4, the difference in our deposit cost of funds and warehouse cost of funds was approximately 190 basis points, where it was 125 basis points in Q3, and just 100 basis points in Q2, a powerful benefit in a rising rate environment.

Lastly, the bank contributes to strong growth in SoFi Money members, high-quality deposits and improved levels of spending and engagement. This has led to higher average balances even as average spend has increased. Of the \$7.3 billion in deposits at quarter end, 88% were from direct deposit members. Roughly 50% of newly-funded SoFi Money accounts are setting up direct deposit by day 30 versus 20% in Q4 '21, and this has had a significant positive impact on spending.

Q4 annualized spend was 3.4x 2021 total spend, and Q4 spend per average funded account was up 25% quarter-over-quarter. SoFi Money members have increased nearly 53% year-over-year to 2.2 million in total. Given the quality of these members with 745 median FICO score, we see ample opportunity for cross-buy.

This is a great segue into financial services more broadly, where net revenue nearly tripled year-over-year to \$64 million and grew 32% from \$49 million sequentially in Q3. Moreover, financial services annualized revenue is now approximately \$260 million. Contribution loss of \$44 million improved \$9 million versus the third quarter, even as we invested \$13 million more in marketing in the fourth quarter. We saw this as a worthwhile opportunity to attract more direct deposit members.

Even with this spend, variable profit, including all marketing costs, improved quarter-over-quarter and was nearly breakeven. We still anticipate the Financial Services segment will be contribution profit positive in 2023 as we continue to scale and monetize the business.

We finished Q4 at 6.6 million Financial Services products, up 60% year-over-year, and 4.9x total Lending products of \$1.3 million. The increased scale of Financial Services helps drive cross-buy and marketing efficiencies over time. The scale of Financial Services not only drives cross-buy and marketing efficiencies, it also is proving to be a large revenue contributor as we continue to drive monetization of these businesses. In

fact, annualized revenue per product is up nearly 2x from \$21 in Q4 of last year to \$40 in this quarter. This is due to the increasing attractiveness of these products, growing brand awareness and network effects.

As we've committed, we continue to iterate and invest aggressively in our product suite, and that investment continues to pay dividends as members embrace our launches. Since our last earnings call, we introduced an increase in our Checking and Savings APY of up to 3.75% as of January 4.

We launched SoFi Plus, a premium member service, that bundles together a wide variety of member benefits and provides incremental value and rewards. SoFi Plus is unlocked through enrolling in direct deposit. We will continue to add more value and benefits to this premium member service to not only highlight the breadth of our products and services, but to also increase the total value of having your direct deposit with SoFi.

We expanded insurance coverage for our members to include cyber insurance. Our invest team launched options trading, making good on our promise to our members to deliver this much anticipated service. And we introduced a new way to spend with SoFi with Pay in 4, the first product built on the combined Galileo and Technisys platform. This leads me to our Technology Platform segment which remains a critical element of SoFi's strategy.

In the fourth quarter, full segment revenue of \$86 million grew 61% year-over-year, with a 20% margin at the segment level or 24% if you exclude Technisys. The SoFi Technology platform strategy includes growth in new verticals, new products and new geographies. In Q4, Galileo signed 11 new clients and made big strides in the strategy, with 36% of new deals in B2B and 27% of new deals outside the United States. Importantly, of these 11 new deals, 9 have existing customer bases, reflecting the continued demand for our innovative services from more mature organizations. Technisys is also delivering strong growth in number of new clients, signing an additional 16 new clients in Q4, including its first digital deal in Mexico.

I'll finish here by saying that we've been in an all-out sprint over the last 5 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 resulting in a uniquely diversified business, combined with a national bank license, not only positions SoFi to be the winner that takes most in the secular transition of the financial services to digital, but also to provide greater durability through a market cycle. I'm excited about where we are today and even more excited about where we can go from here.

With that, let me turn it over to Chris for a review of the financials for the quarter.

Christopher Lapointe^ Thanks, Anthony, and good morning, everyone. We finished off a remarkable year while navigating a rapidly evolving macro backdrop even as our previously largest and most profitable business operated at 25% of Q4 2019 pre-COVID

volumes. This proves once again that our diversified and differentiated business model drives SoFi's durability and long-term growth potential.

I'm going to walk you through some key financial highlights and then share some color on our outlook. Unless otherwise stated, I'll be referring to adjusted results for the fourth quarter and full year of 2022 versus fourth quarter and full year of 2021. Our GAAP consolidated income statement and all reconciliations can be found in today's earnings release and the subsequent 10-K filing, which will be made available in the coming weeks.

For the quarter, top line growth accelerated, and we delivered record adjusted net revenue of \$443 million, up 58% year-over-year and 6% sequentially from the third quarter's record of \$419 million and above the high end of the guidance provided during our last earnings call. Adjusted EBITDA was \$70 million at a 16% margin, also above the high end of our most recent guidance.

We saw 14 points of year-over-year and 5 points of sequential margin improvement, demonstrating the strong operating leverage of the business as it scales. Year-over-year margin improvement has been driven by significant operating leverage across our sales and marketing, G&A and ops functional expense lines. Overall, this resulted in a 40% incremental adjusted EBITDA margin year-over-year.

Our GAAP net losses were \$40 million this quarter, a \$71 million improvement year-over-year and \$34 million improvement sequentially. Incremental GAAP net income margin was 42% year-over-year, a notable step in our path to GAAP profitability. In addition to our adjusted EBITDA margin expansion, we saw meaningful leverage against stock-based compensation as a percentage of revenue at 16% in Q4 2022, down from 27.5% in the same prior year period, putting us well on our path to longer-term goal of single-digit stock-based compensation margins as previously communicated.

For the full year, we delivered \$1.54 billion of adjusted net revenue, up 53% year-over-year from \$1.01 billion in 2021. As a reminder, we revised our annual guidance in April of 2022 following the extension of the moratorium on federal student loan payments. Our updated guidance for the year included \$1.47 billion in adjusted net revenue and \$100 million in adjusted EBITDA. This guidance contemplated an ultimate extension in the moratorium until year-end, which implied a Q4 ramp in student loan refinancing activity ahead of the anticipated resumption of federal payments.

From an adjusted EBITDA perspective, we delivered \$143 million in profit, nearly 5x that of 2021, and \$63 million above the guidance we presented following the moratorium extension I just discussed. 2022 delivered a 9% adjusted EBITDA margin, 630 basis points of improvement from 2021.

Even with the recent subsequent extension of the moratorium through June of 2023, which impeded the expected Q4 2022 ramp in student loan refi demand, we still exceeded that revenue guidance by \$80 million and adjusted EBITDA by \$43 million.

We achieved these results by implementing new strategies and through nimble asset allocation, which speaks to our ability to leverage the diversity of our revenue streams.

Now onto the segment level performance, where we saw strong growth across all 3 segments. In Lending, fourth quarter adjusted net revenue grew 51% year-over-year to \$315 million. Results were driven by 138% year-over-year growth in our net interest income, while noninterest income was relatively flat.

Growth in net interest income was driven by a 109% year-over-year increase in average interest-earning assets and a 317-basis-point year-over-year increase in average yield, slightly offset by 162-basis-point increase in the cost of interest-bearing liabilities. This resulted in average net interest margin of 5.94% for the quarter, up 141 basis points year-over-year.

Noninterest income was relatively flat year-over-year as increased personal loan originations at higher weighted average coupons were largely offset by lower student loan and home loan originations. Personal loan originations grew 50% year-over-year to \$2.5 billion, while student loan originations were down 73% and home loan originations were down 84% year-over-year as a result of macro headwinds and a continued transition of home loan fulfillment partners.

Overall, we achieved strong top line growth, while maintaining our stringent credit standards and disciplined focus on quality. Our personal loan borrowers weighted average income is \$165,000, with a weighted average FICO score of 747. Our student loan borrowers weighted average income is \$170,000, with a weighted average FICO of 773.

This focus on quality has led to continued strong credit performance. In fact, our on-balance sheet delinquency rates and charge-off rates remain healthy and are still below pre-COVID levels. Our on-balance sheet 90-day personal loan delinquency rate was 34 basis points in Q4 '22, while our annualized personal loan charge-off rate was 2.47%.

Our on-balance sheet 90-day student loan delinquency rate was 13 basis points in Q4 2022, while our annualized student loan charge-off rate was 0.37%. As we have expressed in the past, it is reasonable to expect credit metrics to revert over time to more normalized pre-pandemic levels, but we continue to expect very healthy performance relative to broader industry benchmarks.

The Lending business delivered \$209 million of contribution profit at a 66% margin, up from \$105 million a year ago and a 51% margin. This improvement was driven by a mix shift to higher-margin personal loans revenue, along with marketing and ops efficiencies as well as fixed cost leverage across the entire segment. For the full year, Lending adjusted net revenue grew 45% to \$1.11 billion, and the segment delivered \$664 million of contribution profit at a 60% margin.

Shifting to our Tech Platform, where we delivered net revenue of \$86 million in the quarter, up 61% year-over-year, or up 13% excluding Technisys. Overall, annual revenue growth was driven by 31% year-over-year Galileo account growth to \$131 million in total as well as sequential growth in transactions per active account.

We also signed 11 new clients, 4 of which are in the B2B space and 3 of which are in Mexico, further diversifying our partner base. During the quarter, one of our clients migrated the majority of their processing volumes to a pure processor, which resulted in a \$6 million to \$7 million revenue headwind in period.

Segment contribution profit of \$17 million represented a 20% margin and 24%, if you were to exclude Technisys. For the full year, the Tech Platform segment grew revenue 62% to \$315 million, and delivered \$76 million of contribution profit at a 24% margin. Excluding Technisys, revenue growth was 24% year-over-year and contribution margin was 30%.

Moving on to Financial Services, where net revenue of \$65 million increased 195% year-over-year, with new all-time high revenue for SoFi Money and continued strong contributions from SoFi Credit Card, SoFi Invest and lending-as-a-service. Overall monetization continues to improve with annualized revenue per product increasing to \$40, nearly 2x the \$21 in the same prior year quarter and up 25% sequentially from \$34.

We reached 6.6 million Financial Services products, up 60% year-over-year by adding 635,000 new products in the quarter. We now have 2.2 million products in SoFi Money, 2.2 million in SoFi Invest and 1.9 million in Relay. Contribution losses were \$44 million for the quarter, which improved sequentially as a result of the growth in revenue as well as fixed cost leverage, but increased year-over-year, predominantly as a result of building our CECL reserves for the SoFi Credit Card business, which is expected as we continue to grow in scale. In addition, we saw a year-over-year reduction in higher-margin digital assets revenue.

For the full year, the segment delivered \$168 million of revenue, which is nearly 3x the \$58 million we delivered in 2021, and our contribution losses were \$199 million. Notably, that's a 21% improvement in contribution loss per average product during 2022 versus 2021.

Switching to our balance sheet, where we remain very well capitalized with ample cash, excess liquidity and strong regulatory capital and leverage ratios. This year's opening of SoFi Bank further reinforces our strength and provides more flexibility and access to a lower cost of capital relative to alternative sources of funding. In Q4, assets grew by \$3.2 billion as a result of the strong growth we continue to see in personal loan originations.

On the liability side, we saw tremendous growth in deposits to \$7.3 billion, up \$2.3 billion quarter-over-quarter. Because of this, we exited the quarter with \$3.1 billion drawn on our \$8.4 billion of warehouse facilities, which represents 36% of our total available capacity. Our current book value is \$5.5 billion, and our tangible book value

has grown for 2 consecutive quarters, with more than a \$50 million increase sequentially in Q4.

Let me finish up with guidance. Before going through the specific numbers, I want to hit on some of the larger macro assumptions that underpin our financial guide. From an interest rate perspective, we are assuming an outlook consistent with the consensus forward curve with a peak Fed funds rate reaching approximately 5% in Q2 2023, with 2 rate cuts in the back half of the year to get us to a 4.5% exit rate in 2023. We are assuming a 2.5% contraction in GDP and a normalization of unemployment to around 5%. And from a credit perspective, we are expecting a continuation of elevated credit spreads across capital markets and a continued normalization of consumer credit.

For Q1, we expect to deliver adjusted net revenue of \$430 million to \$440 million and adjusted EBITDA of \$40 million to \$45 million. For the full year of 2023, we expect to deliver adjusted net revenue of \$1.925 billion to \$2.0 billion, representing 25% to 30% growth and adjusted EBITDA of \$260 million to \$280 million. Our outlook represents 30% incremental EBITDA margins for full year 2023 versus full year of 2022, and we expect to reach quarterly GAAP net income profitability by Q4 2023, with GAAP net income incremental margins for the full year of 20%.

Finally, quickly hitting on a few key points for each segment. In our Lending segment, we expect the Department of Education's moratorium on federal student loan payments to extend through June 30, 2023, at which point there are 60 days before repayments actually begin. Accordingly, our outlook assumes that we will be operating in our current run rate levels until September. After September, we do believe there will be a recovery to higher levels of student loan refinancing revenue than the current trend, but we do not expect to return to pre-COVID levels in 2023.

In our personal loans business, we expect to see modest growth as we balance taking advantage of ample headroom in this business given our current market share and differentiated product with a thoughtful and prudent approach to ensuring our credit remains very high quality. We remain committed to underwriting to an industry-leading life of loan loss profile.

In our Tech Platform segment, one area of focus for us in 2023 is on quality of new clients, including size, durability and time to market over quantity, which means bigger wins that leverage the combined go-to-market value proposition of the Tech Platform, while still investing in focused new product areas to drive diversification. While we expect low double-digit organic revenue growth in 2023 due to this focus, and a variety of other factors, our longer-term strategy is already starting to pay off with greater diversification in our pipeline and significant margin expansion expected in 2023.

After a 3-year investment period in the Tech Platform, including moving to the cloud, a 2.5x increase in head count, the acquisition of Technisys and launching new product capabilities, we will increasingly focus on leveraging the value of our investments through the synergies between the 2 product lines, Technisys and Galileo, as well as

through joint product offerings, all to drive meaningful contribution profit growth relative to revenue growth. In starting to operate as one unified technology platform, we have recognized opportunities to reduce our costs, including a small reduction in head count.

In Financial Services, we expect continued strong growth in revenue, driven by growth in products as well as increased monetization per product as we scale deposits, spend and AUM. Importantly, we will front load investments in the year to take advantage of attractive opportunities to continue to scale our high-quality deposit base.

In summary, we could not be more proud of the results SoFi delivered in 2022. We exceeded \$1.5 billion in annual revenue and grew adjusted EBITDA nearly 5x to more than \$140 million. We continue to be extremely well capitalized and are excited about the opportunities in front of us. We look forward to another strong year in 2023. And with that, let's open it up to questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Michael Ng of Goldman Sachs.

Michael Ng^ I appreciate all the color around 2023. I was just wondering if you could go into a little bit more detail around the origination assumptions. You gave some good detail around student loan and personal loans, could you do that for home loans as well?

Christopher Lapointe^ Yes, sure. So I can hit that one, and Anthony can chime in. So in terms of our overall outlook on originations, going back to what I said in my prepared remarks, we are assuming modest growth in our personal loans business. We do see there being ample headroom for continued growth given where our market share is today. Currently, we're at about a 6% market share in our credit box. That's up from about 4.5% a year ago. So significant headroom ahead of us, but we are going to take a prudent approach to this and continue to monitor credit and make changes as necessary.

In student loan refinancing, we're assuming that originations are at the current run rate levels at least through the end of August of 2023, and we do expect a bit of an uptick once the moratorium ends in June followed by a 60-day extension. And then in home loan originations, we expect to continue at the current pace that we're at right now with a potential uptick in the back half of the year as we resolve all of our fulfillment issues.

Operator^ Our next question comes from the line of Dominick Gabriele of Oppenheimer.

Dominick Gabriele^ Great results. So I just wanted to talk about the deposit growth. I mean it's really been -- Anthony, it's been really astounding how much deposit growth you've gotten over the last year. And I'm just curious about how you think about an environment where you may need less deposits and how you would go about perhaps trimming that growth rate in that environment -- like, let's say, originations are down. Is it

rate, or is it something else? Any color you can provide on that outlook would be excellent.

Anthony Noto^ Yes. And thank you, Dominick. We're really pleased and proud of what we've been able to achieve on the deposit side getting to 7 -- over \$7 billion of deposits, starting at less than \$1 billion at the beginning of the year. And that trend really reflects the strategy that we've employed behind the bank, to offer a very high interest rate on checking of over 2% and a high interest rate on savings at 3.75%, no fees and complete functionality on your phone to be able to pay bills, to be able to send money to your friends, to be able to look at all of your transactions, to be able to really function all of your money movement right from our app.

The combination of that plus the focus we've had on driving high-quality direct deposits has driven that deposit number. What I'd say is, we're nowhere close to the point in our total deposits that we would have trouble deploying them. The limit on our growth is really driven by how much resources that we have to go after it. Once people will become aware of our product, the adoption is pretty strong behind that.

And so the deposits that we have today could be deployed the way we have the last several quarters, one, to fund our own loans; two, to be opportunistic opportunities related to our loans that are in the marketplace. There are several businesses we're not in today that would leverage deposits, including small and medium business loans and being in that entire sector would require deposits as well. And we can leverage obviously growing deposits from small and medium businesses also. So if we get to the point that our deposits are significantly higher than they are today, we can deploy them in many, many other ways to drive a great return for the company.

Operator^ Our next question comes from the line of Kevin Barker of Piper Sandler.

Kevin Barker^ Your balance sheet has grown tremendously over the last year, partly due to the deposit growth. Could you talk about the differences between held-for-investment versus a held-for-sale strategy? In particular, we've seen several companies start to come back to the securitization market in the first quarter with spreads tightening relative to late '22 numbers. I'm just trying to see how you balance driving net interest income versus potentially some fee or gain on sale income and how do you think about that for the rest of the year.

Anthony Noto^ Yes. Thank you for the question. We noted in the press release and prepared remarks that we hit a couple of key inflection points in the year. One of the biggest inflection points is that our NIM -- our Lending net interest margin revenue is now greater than our noninterest revenue. And that's a pretty big milestone. It reflects a lot of initiatives over the last 5 years, one of which was getting the bank license and being able to use the deposits to fund our loans and not have to recycle that cash through quick sales, et cetera.

So we have the luxury of being able to look in the marketplace, look at our balance sheet and make the best decisions for long-term returns. And as we've done that, we've been able to hold loans longer and generate that revenue stream that's more recurring from net interest margin. You should expect the NIM to continue to grow, both in absolute dollars and as a percentage of total revenue in the Lending sector.

The second big accomplishment was that for the full year, we were able to -- sorry, in the fourth quarter, we were able to get the NIM revenue greater than the directly attributable fixed cost of the Lending business, meaning the noninterest income Lending revenue wasn't needed to get to profitability at the contribution basis in Q4, which is another big milestone. But you should expect that to continue to grow. It is a revenue stream that's more visible, more consistent than gain on sale noninterest income. But we have the luxury of making the best choices based on the marketplace.

I'll let Chris talk about the specifics in terms of securitizations versus whole loan sales versus holding.

Christopher Lapointe^ Yes. In terms of the ABS market, we're seeing the exact same trends that you highlighted in your question. Back in November, we actually did a \$600 million term securitization deal at an attractive cost relative to where we expect warehouse cost of funding to be in 2023, and things have continued to improve in the overall market in the first month of this year. So we expect to be able to access that market here in Q1 and for the rest of the year.

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

Moshe Orenbuch^ So maybe as a follow-up to that, can you talk about what you actually sold during the quarter in personal and student? And did you actually buy any portfolios during the period as well?

Christopher Lapointe^ Yes, I can hit on that. So in terms of sales for the quarter, we ended up relying predominantly on deposit funding, warehouse funding and net term securitization. We did about \$200 million worth of whole loan sales and the \$600 million term securitization, so about \$800 million in total.

In terms of loan purchases, like I said, during the last quarter, having the bank with a large and growing deposit base, provides us with much more flexibility and a new source of funding our loans, which allows us to grow the balance sheet and hold loans for a longer period of time. There are a few ways that we can bring loans on to the balance sheet. We can go out and pay an upfront marketing cost and originate them or we can purchase the loans.

So similar to Q3, we had the opportunity to buy some seasoned loans. This time, they were from -- they were in the student loan refinancing space, and these were all loans that we originally underwrote. Overall size was about half of what we did in Q3. And given the credit quality loss profile and return characteristics, we jumped on the opportunity as

we knew the borrower best, and this will set us up for really strong net interest income in the coming quarters given our overall cost of funding.

And then we also had a few hundred million dollars of normal course cleanup calls on some of our consolidated securitizations that were seller used seasoned.

Operator^ Our next question comes from the line of Eugene Simuni MoffettNathanson.

Eugene Simuni^ This is Eugene Simuni from MoffettNathanson. Quick question from me back to the outlook for 2023, very helpful to have the color, Chris. But I was wondering on the swing factors, let's say, the factors that would allow you to go to the high end of your guide, what would be the top 2 or 3 things that you guys are looking for that could swing the results here in 2023?

Anthony Noto^ Eugene, thank you for the question. There's a -- Chris laid out in our prepared remarks some of the underlying assumptions, both macro and micro. On the macro side, GDP growth, if that's not as dour as we have in our forecast and our implications, so a stronger economy than what we have. And we have a, we think, a relatively conservative low number for GDP, a decline of about 2.5%. Unemployment, we had at 5%. That's a factor if it comes in -- worse than that, that could be a negative, a tailwind would be if it settles in the 4s.

And then on interest rates, we have them peaking at 5% and then coming back down to about 4.5%. If rates came back even more than 4.5% and settled in the 4% range, I think we could be at an optimal part of the curve as it relates to passing on coupons, profitability per loan as well as the NIM that we can make relative to our deposits would be a pretty good outcome.

Separate from that, for the technology platform sector, we have a really robust pipeline. It's more diverse. But more importantly, there are many clients in our pipeline that have large existing consumer bases or user bases. And to the extent that those become launched in 2023 before the second half of the year, we can benefit from upside in those large partners coming on board from the tech sector.

As it relates to the financial services sector, I really believe we have a lot of upside in the invest category. We are quickly launching new products to make sure that we have some table stakes products, but also some more innovative differentiation selection. And I think that if we're able to launch those to a receptive member base and new user base, it could be a tailwind.

Second thing that could be a tailwind to invest is if the IPO market opens back up, we can underwrite IPOs. We're the sole retail distribution channel for the Rivian IPO. We participated in the Nubank IPO. Our members want access to IPOs at IPO prices. We're uniquely providing Main Street with access to IPO prices at those IPO prices. To the extent the calendar opens back up, we have a pipeline there as well, which helps both with adoption of the product by new users because they want that unique selection, but it

also drives incremental assets under management, which allows us to drive more revenue and monetize more.

So those are some of the underlying trends that could give us a tailwind. Let me pass it over to Chris...

Christopher Lapointe^ Yes. The only other thing I would add to that, Anthony, is back to one of the comments that I made a few minutes ago around credit spreads. So implied in our guidance and what I mentioned is that we're expecting to see continued elevated credit spreads throughout the year. Obviously, things are looking pretty good in January, and spreads have tightened and the ABS market seems to be showing some signs of life. So if that continues throughout the year, there could be additional upside in the Lending business as well.

Operator^ Our next question comes from the line of Mihir Bhatia, Bank of America Merrill Lynch.

Mihir Bhatia^ I just wanted to ask about the Technology Platform segment. Sounds like a little bit of, maybe not change but refinement in the strategy as you go after -- you're focusing on quality of clients and bigger clients with existing basis. What are some of the implications of that strategy?

And I was also curious in terms of just new product introductions or cross-sell to existing clients in that segment. Like as we think about your growth from here, how much of it is going to come from cross-sell, cross-buy fueling that segment versus some -- winning some of these new large partners?

Anthony Noto^ Thank you for the question. And I think you characterized it appropriately in that it's a refinement of the strategy. Now that we're operating on one unified platform with both Technisys and Galileo, we can leverage the combined go-to-market and that does drive some synergy cost savings, which is why Chris mentioned small head count reduction. But there are also cost savings in different areas like marketing when you have that unified approach, especially in the United States.

In addition to that, we've made really significant investments in the Tech Platform over the last 3 years. We've increased headcount by 2.5x. We've moved to the cloud while maintaining on-prem capabilities. The on-prem will now go away this year. We've also done a great job at adding new partners. We've been adding 20-plus partners a year.

As we look at the macroeconomic environment and where we sit, we think the right strategy for the year is to focus on durable companies with large installed bases or well-capitalized companies that we know can make the transition and that we'll get a great return to leverage our platform capabilities.

And so that's how we're approaching the year. For the first time, we're going to have meaningful margin expansion in the Tech Platform to start to leverage that investment we

made. But we're still investing, and we're still growing. And let me give you an example of some of the areas that we've invested in that we expect to bear fruit this year, and we'll keep investing in.

First and foremost, we wanted to diversify our products just out of a debit or interchange ACH type of product expanded in the B2B category. We have a number of new B2B partners that are generating revenue today. Some are doing small and medium business lending, some are simply using it for payments and for accounts receivable and accounts payable. But there's a good pipeline of other partners that have large fleets as well as gig economy companies, et cetera.

In addition to building out the B2B channel, we've also tried to add more products for consumer-facing clients. And so one of the products that we have that's been adopted is secure card. Another product that we've launched more recently is a fraud protection. As you think about fraud, and you think about the scale of some of the partners of Galileo, they may not have the scale to invest in fraud the way that we can, and they may not have the data that we have to actually drive those models. And so we've rolled out one piece of a fraud platform that we want to make available to all of our partners.

If we can help them eliminate fraud, it not only saves losses, but it actually makes their service more reliable, reduces the overhead they have in the call centers and also allows them to hit better SLAs in servicing their customers when they do have issues that have to be solved. So it's a classic make-your-footprint bigger than your foot type of product.

In addition to that, we're focused on things that will help them drive engagement. So we've launched a direct deposit switching product, and you'll see us continue to do more to drive more engagement. Things like instant funding are another vehicle that makes the movement of money faster and better for our partners.

And then last, we just launched our first product on both Galileo and Technisys and SoFi, which is Pay in 4. That product is now available for any of our partners. And if you think about the partners at Galileo, many of them are not playing in the same segment that we are. We're at a very high-end customer with high FICO score and high income. Most of the scale in Galileo's partners is actually at the unbanked or underbanked.

A Pay-in-4 product is much better for them than a secure card or unsecured loan or a credit card. And that product can be launched in a turnkey fashion with a much higher interchange of about 3% compared to what they're generating at 1% in debit. It does bring with it some risk and so we'll have to wait cautiously into that market with our partners. But it's another example of the innovation that we've driven that we now think we can get a return on revenue against.

And the last thing I'll touch on is Konecta. It's not something we've talked about on the call before, but we think it's a diamond in the rough, so to speak. It's an AI-driven customer service model that uses both voice and text. And that product is one that SoFi has now adopted, and that's after SoFi did a complete RFP of all the different choices and

determined Konecta to be the best choice for our company. And we'll continue to invest in that product. It's available to our partners as well.

And the last thing where I'd say about our strategy relates to the Technology Platform is that the opportunity to expand geographically is bigger than you could imagine. We have to really pace our level of investment. And while we're not expanding geographically today, there's a lot of penetration within the LatAm market, which is our area of focus, especially with Technisys in more than 12 markets, helping cross-sell Galileo's products.

Operator^ Our next question comes from the line of Dan Dolev of Mizuho.

Dan Dolev^ Can you maybe give us some quarterly trends on sort of particularly the 3 metrics, student loans, personal loans and mortgages, just kind of how things are trending through, say, the end of January?

Christopher Lapointe^ Yes. So thanks, Dan, for the question. So we aren't providing specific views on how things are trending right now. But what I would say is, on the student loan front, through January, as mentioned in our guide, we expect it to be at the existing run rate levels that we saw in Q3 and Q4.

In personal loans, things are progressing. As one would expect, there's a lot of headroom in that business, but we're being mindful with respect to credit. And then on the home loan side, we have made some really good progress over the course of the last 2 to 3 months in terms of some of those fulfillment issues that we've talked about previously, and things are trending in the right direction.

Anthony, I don't know if there's anything you'd add there?

Anthony Noto^ Yes. The only other thing I'd add, Dan, as I did say in my prepared remarks, that we're seeing the strong trend in member and product growth continue into Q1. We've, throughout the year, constantly iterated on marketing channels, on marketing messages, on life cycle marketing and leveraging the most efficient channels. And I feel like, in the fourth quarter, it was a culmination of a lot of work over the last 2 years, and we saw the benefit of that. And as we started the new year, we continue to see that. So we feel really great about not just the growth rate in members as well as products, but the quality of those members and product adoption in addition to the cost of acquisition.

Operator^ Our next question comes from the line of Ashwin Shirvaikar of Citigroup.

Ashwin Shirvaikar^ Congratulations on the results. Question on the process of transfer to new fulfillment partners. And you just mentioned the last 2, 3 months have been good, Chris. But what should investors expect in terms of time line, financial impact? It's been a few quarters this has come up. What's the main factors that seem to be, I guess, affecting a more timely transition?

Anthony Noto^ Yes. And just to give you a little bit of history here, we had a partner that was helping us drive great success on the back-end fulfillment side of the equation. We do the -- we do the marketing to drive the demand at the top of the funnel. We do the underwriting for the loans. And after that loan is locked, we partner with a fulfillment partner to get through all the steps after that.

That partner unfortunately got acquired. We were then required to make a technology platform switch with the new acquired company, which was costly and time-consuming. And ultimately, the economics that entity was seeing became quite onerous as rates increased, and we realized that the economic relationship that we had was changing, and we needed another partner.

We started pursuing other partners, quite frankly, well before that acquisition happened just needing diversification. And so we fast-tracked the second partner that we needed to transition to. That transition didn't happen as quickly as we would have hoped. I will tell you, in the last 2 months, we've seen more progress there than we have in the last 18 months. And I'm encouraged by the progress the team has made both in terms of the technology integration, the process flow, the ability to hit time-to-funding metrics and serve our members better. We're nowhere near perfect, but we're starting to move in the right direction for the first time in a while.

In terms of the economic impact on the overall business, Chris was pretty clear in saying that it will ramp throughout the year. I would think about it as more second half of the year than the first half of the year. But the team is executing in a way that I think positions us really strongly to start stepping on the gas a little bit more as it relates to demand. We've had our foot off the gas, quite frankly, because we don't want to generate demand that we can't fulfill in a high-quality way.

And we're starting to get to the point. I think we'll be there by the second half of the year where we can step on the gas and start to see a much bigger market share gain there. We have such a small market share. Even with higher interest rates, I think there's a huge opportunity for us to drive revenue there as well as that revenue being profitable.

In addition to that, we do, at some point, similar to the rest of our businesses, want to own end-to-end. We own Lending from metal to glass, so to speak, and it gives us such advantages on iterating, on testing, on pricing, on credit, on user flow, on fraud, on risk. And we see the same thing now in SoFi Money, owning Galileo and having the benefit of Technisys as well.

And so at some point, in home loans, we'll own the back end also. We'll always partner. It's great to have 2 sources of capacity, especially given our aspirations and how big we think this could be. It is a huge financial transaction for our members. It is an emotional transaction, and we need to be able to scale it and meet the needs of all of our members, and that's where we're focused on long term.

Operator^ Our next question comes from the line of John Hecht of Jefferies.

John Hecht^ Thanks for taking my question, and congratulations on the quarter. Anthony, you talked about B2B customers ramping up. And you guys have had good -- really good momentum on adding members. I'm just wondering, (inaudible) of customers and members have changed in terms of marketing and customer acquisitions, activities. And how do you think about any opportunities in 2023?

Anthony Noto^ John, it was really hard to hear your question. I don't want to guess what your question was. Maybe you could just dial back in with a better connection. I heard something about B2B, and then it was pretty muted after that.

John Hecht^ Is this better? Sorry, guys. Is this better?

Anthony Noto^ Yes. Perfect. Thank you.

John Hecht^ I'm sorry, can you hear me now?

Anthony Noto^ Yes, we can hear you.

John Hecht^ Okay. I apologize. My headphones are bad. The question was just, Anthony, you mentioned B2B activity. You guys clearly still have very positive momentum with new members and new customers. I'm wondering, has -- given your channels of customer acquisition, the cost of customer acquisition, has there -- anything changed from a characteristic perspective? And how do you look at opportunities from that regard in 2023?

Anthony Noto^ Yes. So the SMB opportunity, I think, is really an opportunity that's aligned with the type of member that we're acquiring in our core target. We don't have plans in 2023 to enter that market. We do believe it's an opportunity for us over the longer term to serve that market well. If you follow us on any social media, it's a constant request that we get from people to launch small, medium business checking and savings, small, medium business lending.

When the pandemic first started back in 2020, March time period, we were inundated with tons of small, medium businesses coming on to SoFi and trying to apply for PPP loans. We clearly don't have small, medium lending. Now that we have a banking license, that is an area that we could go into, but we didn't at that point in time.

We stood up a website that allowed us to take the traffic that came to SoFi and leverage Lantern to send the traffic to a marketplace of small, medium business lenders. And it was very -- people were very happy with it. The demand, as a result of that, led us to realize that many of our members are operating small, medium businesses and that we could serve them on the commercial side as well.

But as I mentioned, it's not something that we do in 2023. I would never say -- I would say the same, we'll review it every quarter. If the student loan market came back sooner

than expected, and some of the other things went our way in the economy and so forth, it may be something that we could focus on in the second half of the year. But right now, it's not on the funding list, but it's a huge opportunity for us.

The only reason I mentioned it earlier was, we had asked -- been asked the question earlier about deposits and what happened if they grow too big, and that would be a great problem to have. If they grow in excess of what we're willing to originate on the personal loan side and SLR side and home loan side and credit cards, we would offer more Lending products to make sure we're capturing that great resource of deposits to deploy against high-returning assets.

Operator^ Our last question today comes from the line of Michael Perito of KBW.

Michael Perito^ Obviously, you guys have hit on a lot already this morning. I thought maybe I'd just ask Chris, just can you maybe give us some reminders or some context around how you guys are thinking of capital of the bank in your 2023 projections? Obviously, very healthy still today. But imagine in the guide, there's a bit of balance sheet growth baked in as you guys done in 2022. I'm just curious where you kind of have the capital ratios leveraging to and how that compares to kind of where you want to run the bank normalized going forward?

Christopher Lapointe^ Yes. Thanks, Mike, for the question. So I'm not going to be providing guidance on the balance sheet side within the bank, but I'll at least provide a little bit of insight on how we're thinking about it. So right now, we've capitalized the bank with about \$1 billion of capital. You'll see that in the bank call report that comes out later today. We're currently operating at about a 15% leverage ratio, which is still significantly above our regulatory limits.

So we do expect to see additional balance sheet growth as we continue to scale our Lending business. We expect modest growth in our personal loans business and then relatively muted in the student loan refinancing and some growth in home loans.

The only other thing I would add in terms of being able to grow the bank balance sheet is that we are sufficiently capitalized at the parent as well. We're coming off of a year in 2021 of raising over \$3.5 billion of capital, and we've only deployed \$1 billion of that to the bank. So we have sufficient excess liquidity that we could capitalize the bank and grow it further if we wanted to.

Anthony Noto^ And the only thing I would add on to that is something we were talking about as a team yesterday that doesn't get a lot of attention. But when you look at the asset side of our balance sheet and you look at the trend, and you look at our cash and cash equivalents, we finished the year at \$1.4 billion of cash and cash equivalents. What's not in that number is \$424 million of restricted cash. And then there's some investment in securities, which is a combination of treasuries and government securities as well as loans or reserves of about \$400 million.

The trend in that line has been continuing to increase, which speaks not only to the liquidity that we have but the equity that we have that we can deploy either against funding loans or funding the bank. And it's one of the important measures that we'll continue to give you a -- somewhat of a level of confidence on being able to fund the bank to grow more if we need to put more equity there.

Great. Thank you for dialing in today. I wanted to end with a couple of comments. February marks my 5-year anniversary at SoFi, and it's just very humbling what we've achieved during such an unprecedented time period, growing from less than \$500 million of revenue to \$1.5 billion at the end of 2022; 600,000 members to 5.2 million members; and negative adjusted EBITDA to \$140 million of EBITDA; plus raising \$3.6 billion in capital; becoming a public company; and receiving a federal bank license.

To have done all of that through 2 interest rate cycles, a recession, with the potential for another, a global pandemic, inflation at a 40-year high and in an incredibly competitive environment with significant access to near 0 cost of capital is a remarkable 5-year run. None of this, though, happens without the full faith of our Board and our shareholders, the persistent and unrelenting resolve of our people and a team that have done nothing short of extraordinary.

Many can prognosticate about what lies ahead for the economy, interest rates, but in my view, the political background, the regulatory background remain very uncertain. And those exogenous factors are out of our control. But as it relates to what lies ahead, I will simply state my strongest belief that SoFi continues to be the best positioned company, to be the winner that takes most in the digital financial services sector of the future. Reaching that outcome is what we control, and what we remain steadfastly focused on to achieve.

With that, thank you for calling in and listening to our fourth quarter results as well as our 2022 full year results. We'll talk to you next quarter. Thank you.

Operator^ Ladies and gentlemen, that concludes today's call. Have a great day ahead. You may now disconnect your lines.