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SoFi Technologies

Q1 2024 Earnings Conference Call

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CORPORATE SPEAKERS:

Paulina Gutierrez
SoFi Technologies; Investor Relations
Anthony Noto
SoFi Technologies; Chief Executive Officer & Director
Chris Lapointe
SoFi Technologies; Chief Financial Officer

PARTICIPANTS:

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Jefferies; Analyst
Mark DeVries
Deutsche Bank; Analyst
Dan Dolev
Mizuho; Analyst
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Peter Christiansen
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Morgan Stanley; Analyst
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Bank of America; Analyst
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PRESENTATION:

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Operator^ Good morning. (Operator Instructions) At this time, I'd like to welcome everyone to the SoFi Technologies Q1 2024 Earnings Conference Call. (Operator Instructions) With that, you may begin your conference.

Paulina Gutierrez^ Thank you. And good morning. Welcome to SoFi's first quarter of 2024 earnings conference call. Joining me today to talk about our results and recent events are Anthony Noto, CEO; and Christopher 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 advantage 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 subsequent filings made with the SEC including our upcoming Form 10-Q. 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. And good morning, everyone. Q1 was another exceptionally strong quarter for SoFi.

We continue to successfully execute on our strategy of making SoFi the one-stop shop for digital financial services.

We expected that 2024 would be an important year of transition. Heading into this year, we had a conservative outlook given interest rate volatility, industry liquidity, inflation and macroeconomic environment concerns.

We planned for continued strong growth from our financial services and technology platform segments up 50% year-over-year, offsetting our plan for lending to be 92% to 95% of 2023 revenue.

We set out to strengthen our balance sheet and capital ratios by continuing to grow our tangible book value.

I'm proud to report that our team delivered across each of these fronts and more in the first quarter of 2024. First, we responsibly grew revenue, while further diversifying our business.

We grew adjusted net revenue in Q1 to $581 million, up 26% year-over-year.

This marks the 12th consecutive quarter of greater than 25% growth.

We grew adjusted EBITDA to $144 million, up 91% year-over-year. This represents a 25% margin compared to 16% a year ago.

I'm pleased to report that our Financial Services and Technology Platform segments make up a growing portion of our revenue quarter-over-quarter, contributing 42% of adjusted net revenue in Q1. This is up from 40% last quarter and 33% a year ago, and we remain on track to finish 2024 with our revenue mix near 50-50.

Second, we posted GAAP net income of $88 million. This includes a $59 million onetime benefit from the recent exchange of convertible notes, which Chris will talk about more in a moment. After achieving our first quarter of GAAP profitability in Q4 2023, we committed to sustaining profitability for the full year of 2024, and we did so in Q1.

We posted GAAP EPS of $0.02 per share, which excludes the benefit from the convertible note exchange. Third, we further reinforced our balance sheet for long-term growth.

We grew tangible book value for the seventh consecutive quarter to $4.1 billion, an increase of $608 million from the prior quarter. Equally as important, our tangible book value per share now stands at $3.92, up 16% sequentially.

We grew consumer deposits by a record of $3 billion and saw continued strong buying demands for our loans, selling over $1.9 billion of loans in Q1.

SoFi Bank reported net income of $100 million with a 21% margin, and a return on tangible equity of 11.7%.

Our total capital ratio for SoFi Technologies is now 17.3%, a 200 basis point improvement from last quarter and well above our 10.5% regulatory minimum. Finally, our broad product offering, enabling people to borrow, save, spend, invest and protect their money continues to attract more and more members to SoFi.

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In Q1, we grew our member base to 8.1 million, up 44% from the prior year, adding 622,000 new members in the quarter. Just as important, we continue to see members adopt more products and deepen the relationship with SoFi.

We recorded 989,000 new product additions in the quarter, with 93% of those product adds coming in our Financial Services segment, a remarkable milestone considering it's been only five years since we launched our first non-lending products and two years since we launched SoFi Bank. This increasingly diverse product relationship with our members is what maximizes the power of the Financial Services productivity loop and allows us to leverage our unique structural economic advantage.

Despite external unpredictability in the year ahead, I remain as confident as ever in SoFi's future.

Our plan to sustain responsible growth and our ability to deliver meaningful value to our shareholders.

Before handing it over to Chris to cover our financial highlights and share updated guidance, I wanted to give a quick peek under the hood on our segment level results. Starting with Financial Services.

We continue to drive acquisition and monetization and importantly, rapidly expanding margins.

We achieved record net revenue of $151 million in Q1, up 86% year-over-year and 8% from the prior quarter. Demonstrating the strong operating leverage in this segment, we generated this 86% growth with only an 8% increase in directly attributable expenses year-over-year.

The overall Financial Services segment achieved $37 million in contribution profit at a 25% margin compared to a $24 million loss in the year ago quarter. That margin is up seven points from last quarter and a full 22 points from our first quarter of segment profitability achieved in the third quarter of 2023. This progress is notable given our significant investment across our Money, Credit Card and Invest products.

SoFi Money delivered strong growth, high-quality deposits and engagement, and higher average account balances even as spending increased.

We grew to 3.9 million SoFi Money accounts, up 61% year-over-year with over 90% of our consumer deposits coming from direct deposit members.

Our direct deposit members have a median FICO of 744 and over 50% of our newly funded SoFi Money account set up direct deposit by day 30, presenting ample opportunities for cross-buy into other SoFi products.

As these members make SoFi Money their account of choice, spending follows with overall debit transaction volume, exceeding $1.9 billion in the quarter, up 20% from the prior quarter and over 150% year-over-year.

Looking at our Credit Card and Invest products, we previously shared that these are our heaviest areas of investment in the Financial Services segment, with current losses of nearly $100 million annually on a run rate basis.

However through improved unit economics and scale, we expect that these products will eventually contribute profit similar to our progress with SoFi Money. Next, turning to our Technology Platform segment.

Our consistent product development and successful shift in sales strategy has enabled us to diversify growth and pursue larger, more durable revenue opportunities. In Q1, we exceeded $94 million in revenue, representing 21% year-over-year growth versus 13% last quarter, in line with our guidance for accelerating growth.

Our Tech Platform segment contribution margin was 33% compared to 32% last quarter and 19% a year ago. Demand from traditional financial institutions and clients in nonfinancial categories remain strong.

While lead times for winning RFPs and integrations and time to revenue are measured in multiple quarters and years, not months, we're seeing the transition to modern processing and modern cores playing out as envisioned.

We also made significant strides in product development in Q1.

We enhanced our partnership with the Bancorp to offer real-time payments, improving the money movement hub, enabling multiple new use cases for B2C and B2 billion clients.

We launched post-purchase buy now pay later for banks and fintechs to deliver flexible financing solutions for debit and credit purchases.

Galileo and SoFi Bank partnered to launch a small business financing card program with Rapid Finance.

Importantly, we continue to make progress with our growing pipeline of new partners in the quarter.

And finally, turning to lending.

As we shared last quarter, we've taken a more conservative approach toward originations given our concerns around rate uncertainty and the broader macro climate. For Q1, adjusted net revenue of $325 million was flat year-over-year.

Personal loan origination growth slowed to 11% year-over-year to $3.3 billion, in line with our more conservative approach. In fact, the balance of personal loans on our balance sheet declined 2% quarter-over-quarter.

Student loan originations grew 43% year-over-year to $752 million and home loan originations increased 274% year-over-year to $336 million. A record 82% of the segment's adjusted net revenue was derived from net interest income compared to 76% last quarter and 62% in the year ago quarter. This is a direct benefit of our bank charter and our ability to hold loans longer when advantageous.

The percent of adjusted lending revenue from net interest income has more than doubled since we launched the bank two years ago. Together, these efforts contributed to great results for SoFi in the first quarter of 2024.

I am incredibly proud of our team's perseverance to serve our members and clients' financial needs in face of continued volatility and uncertainty around the world, while delivering good consistent growth, profitability and shareholder value creation. With that, I'll hand it over to Chris.

Chris Lapointe^ Thanks, Anthony. The first quarter demonstrates strong evidence of how our increasingly diversified and differentiated business model drive SoFi's durability and long-term growth potential.

I'm going to walk through key financial highlights and our financial outlook. Unless otherwise stated, I'll be referring to adjusted results for the first quarter of 2024 versus first quarter of 2023.

Our GAAP consolidated income statement and all reconciliations can be found in today's earnings release, and the subsequent 10-Q filing, which will be made available next month.

For the quarter, we delivered adjusted net revenue of $581 million, with growth of 26% year-over-year. Adjusted EBITDA was $144 million at a 25% margin. This represented over eight

points of year-over-year margin improvement, demonstrating significant operating leverage across all functional expense lines.

In fact, sales and marketing declined as a percentage of adjusted net revenue by nine points relative to the year ago quarter, while total noninterest operating expenses declined 16 points year-over-year.

We delivered our second quarter of GAAP profitability with GAAP net income reaching $88 million, a $122 million improvement year-over-year.

Net income included the benefit of a $59 million net gain associated with the exchange of a portion of our 2026 convertible notes at a discount for equity during the quarter.

We reported GAAP diluted EPS of $0.02, which was not impacted by the gain from the convertible note exchange.

Now on to the segment level performance. Starting with Financial Services, where net revenue of $151 million increased 86% year-over-year with new all-time high revenue for SoFi Money and Lending as a Service, as well as continued contributions from SoFi Invest and Credit Card.

Overall monetization continues to improve with annualized revenue per product of $59, up 31% year-over-year versus $45 in Q1 2023.

This is driven by higher deposits and member spending levels in SoFi Money, greater AUM and monetizable features in SoFi Invest and robust growth within SoFi Credit Card spend. Net interest income increased 106% year-over-year, primarily driven by $11.5 billion growth in deposits year-over-year.

Our noninterest income increased 34% year-over-year, primarily driven by two factors: interchange, which grew 65% year-over-year based on over $7.5 billion in annualized spend and referrals from our Lending as a Service product, which grew 32% versus the prior year period. Contribution profit reached $37 million at a 25% margin for the quarter, even as we continue to invest to rapidly grow this segment. Despite our invest and credit card businesses collectively losing nearly $100 million on an annualized basis, we still achieved strong margins.

Lastly, we reached 10.1 million Financial Services products in the quarter, which is up 42% year-over-year, with 919,000 new products in the quarter.

We reached nearly 3.9 million products in SoFi Money, 2.2 million in SoFi Invest and 3.6 million in Relay.

Shifting to our Tech Platform, where we delivered net revenue of $94 million in the quarter, up 21% year-over-year and down 3% sequentially. Annual revenue growth was driven by strong performance from new clients onboarded over the last nine months, large bank deals signed in Latin America and strong monetization of existing clients launching new products on our platform. Galileo accounts grew 20% year-over-year to $151 million.

The segment delivered a contribution profit of $31 million, representing a 33% margin.

We continue to leverage investments made in the segment as we continue to position Tech Platform for higher rates of diversified, durable growth going forward.We expect Tech Platform revenue to accelerate in 2024 with strong margins.

Turning to lending. First quarter adjusted net revenue remained flat year-over-year at $325 million, with $208 million of contribution profit at a 64% margin versus $210 million a year ago.

These results were driven by a 33% year-over-year growth in our net interest income, while noninterest income was down by 53%. Growth in net interest income was driven by a 59% year-over-year increase in average interest-earning assets and a 114 basis point year-over-year increase in average yields. This resulted in an average net interest margin of 5.91% for the quarter, up 43 basis points year-over-year.

I'd also highlight our $3 billion of deposit growth in the quarter compared to the $242 million of net loan growth on the balance sheet. This has allowed us to continue to reduce our reliance on outside warehouse funding, which is 226 basis points more expensive than our deposits.

As a result, we've reduced our warehouse utilization this quarter by $2.4 billion. The 226 basis points of cost savings between our deposits and our warehouse facilities continues to support our net interest margin and translates to nearly $500 million of annualized interest expense savings at our current deposit base.

It also underscores the benefits of having the option of holding loans on balance sheet when advantageous and collecting net interest income.

We expect to maintain a healthy net interest margin above 5% for the foreseeable future and benefit from the continued mix towards deposit funding, along with our ability to sustain healthy deposit versus lending betas.

On the noninterest income side, Q1 originations grew 22% year-over-year to $4.4 billion and were driven by growth across our personal, student and home loan products.

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Personal loan originations growth slowed to 11% year-over-year and 2% sequentially to $3.3 billion, which was anticipated and in line with our more conservative approach given macro uncertainty.

Our student loans business saw origination volume grow 43% year-over-year, with a slight 5% decline sequentially to $752 million. Home loans grew by over 270% year-over-year and 9% sequentially to $336 million.

Our personal loan borrowers weighted average income is $169,000, with a weighted average FICO score of 746.

Our student loan borrowers weighted average income is $146,000, with a weighted average FICO of 768.

In the first quarter, we sold portions of our personal loan, student loan and home loan portfolios totaling over $1.9 billion. That comprises approximately $1.26 billion in personal loan principal, $300 million in student loan principal and nearly $350 million in home loan principal.

In terms of personal loan sales, we closed $500 million of loans in whole loan form and $700 million in ABS at a blended execution of 105.7%. These had similar structures to other recent personal loan sales, with cash proceeds at par or at a small premium to par, and the majority of the premium consisted of contractual servicing fees that are capitalized. These deals included a small loss share provision that is above our base assumption of losses and immaterial relative to the exposure we would otherwise have if we held the loans.

As a result of the personal loan sales in the quarter, the quantity of personal loans on our balance sheet declined sequentially despite growth in originations.

Additionally, we sold $62.5 million of late-stage delinquent personal loans principal in the quarter. Typically, we do not sell delinquent loans until they are charged off, but we were able to generate positive value generated from both recovery and servicing value relative to letting the loans charge off and sell after the fact.

As discussed during Q4 results, roughly 15% of our losses came from credit tiers that we ceased originating several quarters earlier, which represented 3% of unpaid principal balance.

We were, therefore, able to reduce exposure to those credit tiers, as the loans run off and become a much smaller portion of overall unpaid principal balance.

In addition, we continue to make adjustments to our credit underwriting model in line with the internal and external indicators underlying our risk score card. Moving to our student loan sales.

We closed $294 million of loans in whole loan form and execution of 104.9%. This sale had no accompanying loss share provision nor a senior secured financing option. Finally, our $344 million of home loan sales were sold at a blended execution of 100.9%.

Also in the quarter, we executed $399 million of senior secured financing, which will show up on our detailed balance sheet as senior secured loans held for investment at amortized costs. These loans have a fixed term structure and are secured against the underlying assets, therefore, equivalent to the investment-grade bonds, if we were to do a securitization for the same pool of collateral.

In addition, these loans are priced at market rates, which not only helps to diversify our balance sheet, but also provides an additional return above our cost of funding and a yield similar to the net interest margin of our loans, which are unsecured. Turning to credit performance.

Our on-balance sheet 90-day student loan delinquency rate was 13 basis points, while our annualized student loan charge-off rate was 60 basis points.

Our Q1 on-balance sheet 90-day personal loan delinquency rate was 72 basis points.

Our annualized personal loan charge-off rate decreased to 3.45% from 4.02% in Q4 including the impact of asset sales, new originations and the delinquency sale in the quarter.

We anticipate ongoing normalization in credit performance toward pre-pandemic levels of 7% to 8% life of loan losses. Now turning to our fair value marks and key assumptions.

Our personal loans are marked at 104.2% as of quarter end, down from 104.9% at the end of Q4 and well below the 105.7% blended execution achieved on the $1.2 billion in personal loan sales.

The lower personal loan mark was primarily a function of the discount rate increasing by approximately 30 basis points to 5.8%. This was driven by the underlying benchmark rate increasing by approximately 50 basis points and spreads tightening by 20 basis points, in line with industry trends.

Importantly, the benchmark rate change and the spread change are empirical as they are actual market observed inputs, not assumptions.

In addition, the mark was negatively impacted by the annual default rate increasing by 9 basis points to 4.85%, and the annual prepayment speed increasing by 150 basis points to 24.7%, which has an immaterial impact on the overall change in the mark. When a borrower prepays,

we are still capturing the principal and the impact to the value of the asset is only based on the premium above par at a given point in time, which is very small relative to the principal outstanding.

The weighted average coupon on the personal loan portfolio remained unchanged at 13.8%. For our student loan portfolio, the fair value mark remained unchanged at 103.8% at quarter end.

In terms of the inputs, our weighted average coupon remained flat at 5.6%, annual losses remained flat at 60 basis points, prepayments increased by 8 basis points to 10.5%, and the discount rate remained unchanged at 4.3%.

As mentioned previously we sold $294 million of student loan collateral in the quarter. Had we not sold those assets, the student loan discount rate would have increased by a similar magnitude as our personal loans business.

Switching to our balance sheet, where we remain very well capitalized with ample cash and liquidity.

Assets grew by $1.2 billion, largely as a result of $242 million growth in loans and approximately $803 million growth in cash, cash equivalents and investment securities.

On the liability side, deposits grew by $3 billion sequentially to nearly $22 billion.

As mentioned earlier, we reduced our reliance on warehouse facilities through our robust deposit growth and exited the quarter with approximately $800 million of warehouse debt drawn.

In Q1, we opportunistically executed two transactions in order to optimize our financing structure and bolster our capital capacity.

First, we issued $862.5 million in convertible notes due in 2029 at a 1.25% coupon. The net proceeds are being used to replace higher cost financing including the redemption of the $320 million of outstanding Series one preferred stock that carries an annual dividend of 12.5%, which was set to increase to over 15% in late May.

In total, this new convertible issuance should reduce our financing expense by $40 million to $60 million per year including cost-saving opportunities with the remaining proceeds.

Second, we agreed to an exchange of $600 million principal of our convertible notes due in 2026 for shares of SoFi common stock. This was a notable discount compared to what we would have had to pay in two years.

This transaction generated a gain of $59 million for us in the quarter, while notably reducing our 2026 maturities and bolstering our funding capacity. When viewed in total, these transactions are accretive to book value and net income, and have minimal impact on a fully diluted EPS basis.

In terms of our regulatory capital ratios, our total capital ratio of 17.3%, improved by 200 basis points from 15.3% last quarter due in large part to these transactions and remains comfortably above the regulatory minimum of 10.5%.

While we don't intend to utilize the excess capital capacity in the year, given our view of the macro uncertainty, these transactions put us in an even stronger position for years to come. Lastly, we grew book value to $6.1 billion and tangible book value to $4.1 billion.

We recorded tangible book value per share at $3.92, up 16% quarter-over-quarter.

Now moving on to our updated guidance. Throughout the last 12 months, we have demonstrated the benefit of having a diversified high growth set of revenue streams, multiple cost-efficient sources of capital, our continued key focus on underwriting high-quality credit and a high degree of operating leverage as we scale the business.

We expect those benefits to persist going forward even in light of the existing macro backdrop. 2024 remains a transitional year for SoFi, as the Tech Platform and Financial Services segments together will drive our growth and increase from 38% of total adjusted net revenue in 2023 to approximately 50% for all of 2024.

For the full year 2024, we now expect to deliver adjusted net revenue of $2.39 billion to $2.43 billion, which is $25 million higher than our implied prior guidance range of $2.365 billion to $2.405 billion. This guidance assumes lending revenue will be 92% to 95% of 2023 levels, which is unchanged from prior guidance and Tech Platform will grow approximately 20% year-over-year, which is also unchanged.

We expect the Financial Services segment revenue to grow more than 75% year-over-year.

We now expect adjusted EBITDA of $590 million to $600 million, above our prior guidance of $580 million to $590 million, and that incorporates increased investment into more product innovation, new businesses, services and member benefits.

This represents 15% to 17% adjusted net revenue growth and a 25% adjusted EBITDA margin.

We now expect full year GAAP net income of $165 million to $175 million, above prior guidance

of $95 million to $105 million, which includes a $59 million gain associated with the convertible note exchange.

We expect fully diluted GAAP EPS of $0.08 to $0.09 per share above prior guidance of $0.07 to $0.08 per share.

We now expect growth in tangible book value of approximately $800 million to $1 billion for the year versus our previous guidance of $300 million to $500 million, given the benefits of the recent convertible debt exchange, along with the effects of new convertible issuance.

We now expect to end the year, with a total capital ratio north of 16% due to those transactions versus our previous guidance of 14%.

We continue to expect to add at least 2.3 million new members in 2024, which represents 30% growth.

For Q2, we expect to deliver adjusted net revenue of $555 million to $565 million, adjusted EBITDA of $115 million to $125 million, and net income of $5 million to $10 million.

In terms of phasing, you can see for the past two years that the second quarter is seasonally flattish for lending, which coupled with our more conservative approach toward originations this year should drive a sequential decline in lending revenue, which largely offsets tailwinds in the two other segments.

In terms of operating expenses, you can expect low single-digit sequential growth as we continue to invest in future growth.

Overall, we couldn't be more proud of our Q1 results and continued progress.

Having delivered over $581 million of adjusted net revenue and $144 million of adjusted EBITDA, we continue to make great progress against our long-term objectives in the quarter and remain very well capitalized to achieve our vision of making SoFi the one-stop shop for digital financial services. With that, let's begin the Q&A.

Operator^ (Operator Instructions) Your first question comes from the line of John Hecht of Jefferies.

John Hecht^ Chris, you gave some of the metrics in the personal lending book on charge-offs and so forth. I'm wondering, what you're looking at, at this point in terms of payment trends and kind of the underwriting factors that informs your credit outlook?

And maybe if you could give us your thoughts on that as well.

Chris Lapointe^ Sure. I'll start and then Anthony can chime in.

So we feel really good about our credit and the underlying performance of our loans, and everything is performing in line with expectations, while we continue to see the underlying signs of improvement.

In Q1, our net charge-off rate was 3.45%, which was down from 4.0% in Q4, which included the impact of asset sales, new originations, as well as the delinquency sale that we did in the quarter.

In terms of our outlook, we anticipate ongoing normalization in credit performance towards pre-pandemic levels of 7% to 8% life of loan losses, which is in line with what we said last quarter.

Historically, life of loan losses could reasonably be approximated by the weighted average life of the portfolio, multiplied by a given quarter's annualized net charge-offs. However while our life of loan loss trends and our outlook are unchanged, the relationship to any given quarter's NCOs has changed.

In fact, what we're now seeing, particularly with how recent vintages are playing out, is a more rapid factoring down of loan principal, as a result of increasing prepayment rates and demand for shorter-term loans.

What that means is that we're starting to see a greater proportion of losses happening sooner. And as a result, we're seeing an outsized impact on NCO rates that are not directly correlated to the life of loan losses when applying the normal 1.5x weighted average life to them.

In other words, for any specific recent vintage, you can expect to see losses lower in the latter stages than before and higher in the earlier stages. However our life of loan losses will remain in line with our 7% to 8% outlook.

What gives us confidence in that 7% to 8% outlook is that we have a decade of experience of underwriting high-quality credit, and as we've been talking about for quite some time, optimizing the credit profile of those we underwrite to is part of our DNA.

We underwrite to cash flow. We have very robust analytics, detailed vintage-based models and forecasts, which are managed by our second line of defense. And all of our outlooks are data-driven, resulting in the strong performance and outcomes that we've been able to achieve.

Now when looking at some of the specific numbers and trends that we're observing today we've seen a material improvement in performance since we started tightening credit in mid-2022. When looking at recent vintages and their loss rates at comparable points in time to our Q3 2022 vintage, we've observed the following: in Q1 -- our Q1 2023 cumulative vintage losses through 12 months of being on the books was approximately 20% better than the Q3 2022 vintage over that same period of time, 12 months of being on the books.

If you look at our Q2 2023 cumulative vintage losses through nine months of being on the books, that was also 20% better than the Q2 2022 vintage over the same period of time.

Then finally, our Q3 2023 cumulative vintage losses through six months of being on the books was nearly 40% better than the Q3 2022 vintage over the same period of time.

So putting it all together, the performance improvement that we've observed in recent vintages, coupled with the short duration nature of the assets and the remaining principal on older and newer vintages prior to making credit cuts gives us a very high degree of confidence in our 7% to 8% life of loan loss outlook.

Operator^ Our next question comes from Mark DeVries of Deutsche Bank.

Mark DeVries^ Yes. I was curious whether just kind of given where you are now with the equity capital levels whether you feel you have enough sources to support future growth?

Or do you potentially see yourself having to raise additional outside equity?

Anthony Noto^ Thanks for the question.

We had significant excess capital prior to the transactions that occurred in the quarter.

Our risk-based capital level was -- over 15%. It's now over 17%, well well well above our regulatory requirement. And given our outlook on lending, there's no reason for us to change our stance in that business.

We have -- we went into 2024 with a view that our growth would be driven by the combined impact of Tech Platform and Financial Services business. Those businesses are now big enough in terms of total scale and profitable enough that we could put our resources behind them, still grow as we did this quarter over 26% year-over-year, while the lending business was essentially flat year-over-year.

So our decision to make that transition in 2024, wasn't driven by capital. We had excess capital and could grow it much faster.

We have even more excess capital now but our stance hasn't changed because that wasn't the reason for keeping it relatively conservative.

We feel great about the trends in Tech Platform and Financial Services. I think it's quite remarkable, the growth rate that we're achieving there and the level of profitability.

If you had asked me six years ago, could we deliver in the first quarter of 2024, a 25% revenue growth, 25% EBITDA margin, growth in tangible book about 16% sequentially in addition to record deposits and strong member growth of 44%, with lending being flat, I would have said not a chance.

So it's a real testament to the diversification of our business and the optionality we have to drive growth in different environments.

But we started in October, talking about higher for longer.

While the market and different government officials led people to believe there'd be six rate cuts at one point. Now we're down to one to two rate cuts.

We think we took the appropriate stance, and we're well positioned to play where the economy goes in 2024.

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

Dan Dolev^ Really strong results, congrats. I have a question about the NIM. Really stable NIM trends. Can you, Chris, comment on the future NIM trends, how you're seeing them?

I would appreciate it.

Chris Lapointe^ Sure. Thanks, Dan.

So yes, we've been very successful in maintaining healthy net interest margins and continuing to expand them over time.

In Q1, our net interest margin was 5.9%, which was up 43 basis points year-over-year. And more importantly, what we've seen is year-over-year net interest margin expansion in every single quarter throughout 2022 and 2023.

Our ability to constantly expand NIM was a function of maintaining loan pricing betas that are above 100% in a rising rate environment, scaling our high-quality deposits and maintaining

betas below 100% in a rising rate environment for our loans business, as well as capital structure optimization moves that provide us with a lower cost of funding.

We do expect to maintain healthy margins for the foreseeable future, breaking it down between the asset side and the liability side.

On the asset side of the equation, in a higher for longer rate environment, we do expect to maintain strong yields north of 9%, which is consistent with what we've observed over the course of the last several quarters, even in light of seeing a mix shift away from personal loans on the balance sheet.

Then on the liability side, we expect to be able to maintain a healthy cost of funding even while maintaining a highly competitive APY on our SoFi Money product. That's a function of a few things.

First, we recently issued $862.5 million of convertible notes at a rate of 1.25%, which was used to displace much higher cost of funding. Second, we still have room to fund more of our balance sheet with lower cost deposits.

We have $2.6 billion of higher cost brokered CDs, $800 million of warehouse lines that are outstanding and about $500 million of a corporate revolver outstanding.

So net-net, we're really confident in being able to maintain net interest margins above 5% for the foreseeable future.

Operator^ Our next question comes from Kyle Peterson of Needham & Company.

Kyle Peterson^ Great. Just wanted to dive a bit more into deposit growth and pricing, obviously been really strong growth on that front.

But if you could give a little more detail, specially on deposit betas and what the biggest drivers of growth will be -- particularly if we are in a higher for longer environment, that would be great?

Anthony Noto^ Yes. Chris can comment on the betas. What I'd say is we raised our '24 revenue outlook in terms of the range by more than we beat in Q1. That's because of the positive tailwinds we're seeing in both Tech Platform as well as Financial Services.

We had record growth in deposits in Q1 of $3 billion. We've seen really strong debit spending trends. We're annualizing more than $8 billion now.

So that will definitely continue to have a tailwind.

We're uniquely positioned to be able to provide an attractive APY on the deposit business. Given the fact that we're an originator, and we can match up what we're lending at versus what we're paying out from a depository standpoint.

In addition to that, we've really seen strong trends from the existing customers for the Tech Platform business. In addition to uptake of new products such as payment risk platform as well as the Konecta chatbot product.

So we feel good about the largest components of our revenue going to the back half of the year.

Then we have the additional contributions from businesses like SoFi Invest as well as our Credit Card business and efforts that we had with Lantern and small, medium business lead generation. Those are all contributing smaller dollar amounts, but moving quite strongly in a direction of continuing tailwind as well.

Chris Lapointe^ Then from a beta perspective, we ended up exiting the quarter with $21.6 billion of deposits. That was up $3 billion quarter-over-quarter with more than 90% of the deposits coming from direct deposit members.

We ended up launching the Checking and Savings product back in February of 2022 with an APY of 1%.

Then at the end of Q1, our APY is 4.6%.

So our overall beta over the course of time that has been in the 65% to 70% range.

Operator^ Our next question comes from Reggie Smith of JPMorgan.

Reginald Smith^ I wanted to kind of dig into the Financial Services segment a little bit.

One of the disclosures you guys give in the press release is the FICO score of some of your new depositors.

I guess my question is, what's your appetite for really growing the Credit Card business. And maybe talk about what that looks like ultimately growing that?

Then my second question, which is related to Financial Services is at what point would, I guess interest from Credit Card outweigh maybe some of the transfer pricing that you’re getting from the lending segment.

Is that an ultimate goal where that business is driven more by the actual lending of the Credit Card business?

If that makes sense.

Anthony Noto^ We're really excited about where we are with Credit Card. We've had a great journey in launching a credit card, learning quite a bit about our go-to-market strategy, how we're marketing and targeting potential new members with credit card in addition to understanding the underlying credit trends and what the right credit model is, in addition to other factors like fraud and risk overall.

We've brought in significant subject matter expertise in the Credit Card business that have actually built new prime cards in the past.

Our product remains a prime product that will continue to be a prime product.

But we felt like coming out of 2023, that we had the learnings that allow us to be more aggressive in 2024 in that business as things unfold.

So expect us to invest more in the business and see some good innovation in the back half of the year, based on the learnings that we've had for the last three years. It's a great product. It has a high ROE product, but there is a J curve that you have to go through.

I think one of the things that may often be missed by the broader investment community is that now we have 8.1 million members, we can market our credit card to known members with known credit profiles, known spending capabilities, cash flow, capacity, et cetera.

So we're at that point now where we would really like to put more resources behind a strategy that we think is really working in our benefit as it relates to the interest rate and the relationship to the rest of our funding costs and what presents to that.

Chris Lapointe^ Yes.

So right now this is a super high ROE business.

In terms of the mix shift towards the lending product.

We still have significant low cost of funding through our deposit base, and as Anthony mentioned, we're going to start scaling this business more rapidly.

We had started to see some good green shoots in terms of early-stage delinquencies and losses that are performing materially better than historical vintages, so we can start investing more heavily in this business.

Operator^ Our next question comes from Peter Christiansen of Citigroup.

Peter Christiansen^ Great to be on the call. I'm curious about network fees in the Financial Services segment, which were down quarter over quarter. I'm just -- I think the expectation there was that they would rise sequentially. Just if you can give a little bit of color there.

Chris Lapointe^ Yes, absolutely.

So we are seeing really good spend behavior.

We had about $1.9 billion of overall spend in the quarter. That was up from $1.5 billion in Q4 and $1.2 billion in Q3 of last year.

We did benefit from a small one-time benefit from a partner on the network fee side.

But what you can expect going forward is relatively linear growth with spend behavior over the course of 2024.

So there was a one-timer in Q4 that made for a tough comp, but going forward, you can think of linear growth or relative to spend.

Operator^ Our next question comes from Jeff Adelson of Morgan Stanley.

Jeffrey Adelson^ Chris, maybe just to circle back on the improvement in the charge-off rate for personal loans. Seems like we saw a 15% sequential decline there, sort of in line with the comments you've made about the 15% of credits coming out of the system over the last quarter and in this quarter. How long should we maybe expect that to persist?

I know you're still talking about the charge-off rates normalizing towards your life of loan targets. Just kind of curious how that short-term dynamic might play out?

Then I guess the comments on keeping your excess capital this year in light of the macro uncertainty. Are you hearing anything from your regulators on there about any sort of buffer you might need to keep?

Have you tried to run an excess capital drawdown scenario from an internal stress test?

Or have you ever tried to size that? Just kind of curious because it seems like the macro uncertainty is a bit at odds with what we're hearing from other lenders, which are pointing to a little bit more of a stable to improving macro. Just trying to understand why maybe you wouldn't lean in a little bit more on the personal loan side here.

Chris Lapointe^ Yes. Sure. I'll take some of the losses. Anthony can hit on some of the excess capital.

On the losses front, we did see a decline in net charge-offs, but what's important is the net charge-off rate is a function of a number of factors. It's originations in the period, it's pay downs. It's a term of the loans that we're underwriting to.

We did benefit in this period from the late-stage delinquency sale that we did, which helped drive the overall losses down sequentially.

What I would guide you to is that 7% to 8% life of loan loss outlook, which we feel extremely confident in given some of the loss trends and delinquency trends that we're seeing in our more recent 2023 vintages on the excess capital point.

Anthony Noto^ Yes.

So what I'd say is we 100% have the option to drive the lending business faster if we'd like.

We do stress tests, as you would imagine internally and externally for others across the entire ecosystem, in which we operate.

Starting the year at the risk-based capital that we had at 15% -- even with stress test gave us ample opportunity to invest in that business at a rate that we wanted to.

I would say our outlook for the lending business is more reflective of the uncertainty as opposed to whether or not there are great trends.

As you see in our lending business is actually performing quite well. We're driving great returns there, good steady credit performance as expected. It's not that we're expecting a huge drop off the cliff or huge deterioration.

It's that we've gone from in the last six months, the market anticipating six rate cuts as you got into the sort of October time period to then now we're down to one to two rate cuts. And prior to the six rate cuts, people were talking about higher for longer in October.

And so there's been a complete swing of the interest rate environment.

As you just saw in the banking industry, that creates liquidity issues for different banks.

We're concerned about others not being able to manage their liquidity issues. Last year, at this time, we were experiencing First Republic going under that was not anticipated. I don't know what's around the next quarter. I do know that we have a great member base.

We have excess capital well above we started the year with at 17%.

So we have the option to grow the business much faster if we choose to.

One of the things we haven't talked about is we're now selling a significant amount of loans.

We sold 1.9 billion of loans in the quarter. That demand remains strong.

So to the extent that, that demand continues to increase and remain strong, and the environment remains sort of stable and more predictable.

Could we be more aggressive in the lending business?

100%.

We have the capital.

We have the go-to-market strategy.

We have the flexibility on the balance sheet, and we have the aptitude to be able to do it.

We're just taking a very conservative view to make sure; we don't go into an environment that we're completely unprepared for. Taking a conservative stance gives us the most optionality to do work but not necessarily have to do less.

Chris Lapointe^ Yes.

The only other thing I would add to quantify some of those numbers in terms of our overall capacity is that we have more than $20 billion in capacity to originate loans. And even though we're -- even if we were to originate at that level, we would remain well above all regulatory minimums.

In terms of what's driving the overall $20 billion; first, we expect to generate $800 million to $1 billion of tangible book value in 2024, which translates to about $6.5 billion to $8 billion of incremental capacity; second, loans are amortizing or paying down at the annual rate of $9.5 billion; third, we have our previously announced $2 billion forward flow agreement in addition to a number of on-the-run transactions that we're doing in the capital markets front. Demand is extremely strong.

We did $1.9 billion of sales this past quarter.

Then lastly, we have incremental headroom in our overall capital ratio.

So having said that, we have sufficient capacity, but we are taking a conservative approach.

Operator^ Our next question comes from Mihir Bhatia of Bank of America.

Mihir Bhatia^ I wanted to switch to the Tech Segment for a second. You had 20% account growth this quarter. I was wondering if you could comment on a couple of things there.

One is, can you just comment on what's driving that?

Maybe talk about some of the key customers you may be added in the quarter.

Also just curious if you could provide some examples of the larger clients you have won since transitioning the sales strategy to focus on these large clients?

Then just relatedly on the segment, margins improved nicely. Just -- and I think you've talked about this being a margin expansion year.

But can you just comment on the margin trajectory from here?

Anthony Noto^ Yes. In terms of the Tech Platform, we saw good consistent trends there. The Tech Platform grew 21%, which was an acceleration and year-over-year growth compared to Q4 and Q3 and Q4 also accelerated.

We expect the trends there to continue.

We have a really sizable client base with growing underlying users in that client base in addition to driving additional product attachments to our existing clients. We're also seeing a greater contribution from new clients over the last nine months.

As it relates to the broader macro environment for Technology Platform segment, the demand interest in using our technology platform, our modern Gen three core as well as our API-based payment platform, issuing platform is as high as it's ever been.

We continue to sign up new partners.

I'd say those new partners fall into a couple of buckets.

We are converting people from other competitive processing sites to Galileo.

In addition to that, there's a lot of demand still from partners that haven't historically used an issuing platform or processing platform like Galileo that are transitioning to that platform from a sector standpoint. And then in the large financial institutions, the demand for modern cores and processing continues to be really robust. The timing on those deals is really driven by those end customers.

We haven't lost any of the RFPs. We've continued to be down selected as big financial institutions go from a large RFP to a few select partners.

So we feel good about our chances there.

We're not expecting to win 100% of those deals, but we feel like we can win our fair share. Those deals will take longer to not only sign up, but also to implement.

So the contribution for that is quarters, not months, after they're announced, but we feel great about the current trends there, and that's why the acceleration happened in the quarter. Q1 is a seasonally weaker quarter for the Technology Platform business, but the year-over-year growth rate is what people should focus on because that eliminates the impact of seasonality and that accelerated.

Operator^ Our next question comes from Terry Ma of Barclays.

Terry Ma^ I just wanted to dig a little bit more on the late-stage personal loan -- delinquency personal loan sales. Can you maybe just talk about the structure and execution around that and whether or not you plan on selling more?

Chris Lapointe^ Yes, absolutely.

So in Q1, we ended up selling $62.5 million of late-stage delinquent personal loans in the quarter. Typically, we do not sell delinquent loans until they are charged off, but we were able to

generate an opportunity where we're able to generate positive value relative to letting the loans charge off and sell after the fact.

So typically, how it works at a high level is we would normally let a loan charge-off, and then sell and release servicing to a debt settlement company or another investor for low double-digit pennies on the dollar.

In this late-stage delinquency sales structure, we were able to retain servicing and portions of the recovery, which will result in nearly double the returns we would have otherwise been able to achieve.

Operator^ Our final question comes from Jill Shea of UBS.

Jill Shea^ So I just wanted to touch on operating expenses. And just wondering if you could highlight any opportunities there, and the largest efficiency gain areas?

Then also, how does continued brand awareness improvement impact your sales and marketing spend?

Chris Lapointe^ Yes.
So I'll hit on some of the operating expense lines. I'll let Anthony hit on the brand awareness.

But overall, we saw a meaningful improvements across all functional expense line items.

Sales and marketing, specifically, was down about 900 basis points year-over-year as a result of obviously improvements in overall brand awareness, continued and elevated cross buy.

We're close to 40% of all new products that were taken out in the period were coming from existing members on the platform.

Then we're just getting much more efficient at being able to market.

In terms of other efficiencies, we continue to see efficiencies in R&D as a result of the migration from being on-prem to the cloud in our Tech Platform business, as well as other investments that we've made over the course of the years that are starting to play out.

On the operations side, we're seeing meaningful leverage as a result of some of the automation efforts that we've invested in over the course of the last 24 months, which, again, are starting to play out as we're seeing better funnel conversion and improvement.

Then in G&A, as you would expect, there's meaningful operating leverage in the system as we continue to scale.

We made significant investments as we became a public company and got our bank charter, and also invested heavily in risk, in second and third lines of defense, and as those investments were made over the course of the last 12 to 24 months at scale. I'll turn it over to Anthony to hit on the brand piece.

Anthony Noto^ Yes.

On the brand awareness side, we're really pleased with just the continued improvement we have in unaided brand awareness.

Our marketing team and our businesses have done a great job of putting together a very integrated multimedia strategy that leverages partnerships with big well-known brands that help us achieve brand unaided awareness to become a household brand name. That helps improve our overall performance marketing as well.

The more people that know us, the more people that trust us, the better reaction we get from every offer we have in the marketplace or other ways that we connect with potential new members in addition to building their awareness of new products beyond their initial product.

Our cross-buying continues to remain really strong. We're seeing good financial service productivity leverage in our customer acquisition costs.

So it's been a great year and 2024 is off to a great start as it relates to the impact on our unaided brand awareness from things like our recent partnership with the NBA as the official bank of the National Basketball Association.

With that, let me add some concluding remarks. I want to thank everyone for joining us today. We're proud to kick off 2024 with an exceptionally strong first quarter.

Our 26% revenue growth driven by 54% growth in revenue from the combined Tech Platform and Financial Services, which now constitutes 42% of revenue, while no growth in lending gives us a very strong outlook for the year, with 25% EBITDA margins in the quarter and for the full year, record $3 billion of deposit growth and 16% growth in tangible book value and 44% growth in members, now totaling 8.1 million in total are a great testament to the success of our bold strategy and ability to execute across an unprecedented set of financial conditions over the last six years.

SoFi Technologies

Q1 2024 Earnings Conference Call

Although we live in an unpredictable world, our team at SoFi is resolved to serve the needs of more than 8 million members and clients, while sustaining the growth, profitability and increase in the shareholder value that we've done so far.

We thank you for your interest and look forward to talking to you next quarter.

Operator^ This concludes today's call. You may now disconnect.