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SoFi Technologies

Q2 Earnings Call

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PRESENTATION:

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Operator^ Good morning, and thank you for attending today's SoFi Second Quarter 2023 Earnings Conference Call.

(Operator Instructions) At this time, I would now like to turn the conference over to our host, Maura Cyr, from SoFi Investor Relations. Maura, please proceed.

Maura Cyr^ Thank you, and good morning. Welcome to SoFi's Second Quarter 2023 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 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 most recent Form 10-K as filed with the Securities and Exchange Commission as well as 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. The second quarter at SoFi marked our ninth consecutive quarter of record revenue and fourth consecutive quarter of record adjusted EBITDA. These results were bolstered by record revenue in both our Technology Platform business segment and our Financial Services business segment, which was fueled by record member additions, coupled with strong monetization trends. These results, which we achieved despite market volatility and

industry disruption, reflect the unique diversification of our businesses and the strong execution by our world-class team.

I am incredibly excited to discuss what we've accomplished. I'm even more excited about what is in store for us over the next several quarters as the key underlying trends in each of our segments are indicating continued momentum across the business. A few key financial achievements from the second quarter include: record adjusted net revenue of $489 million, up 37% year-over-year; record adjusted EBITDA of nearly $77 million, representing a 43% incremental margin and a 16% consolidated margin. At the company level, we saw an incremental GAAP net income margin of 36%, which resulted in a loss of just $48 million. At SoFi Bank, we had over $63 million of GAAP net income at a margin of 17%.

From a balance sheet perspective, our unique value proposition in SoFi continues to fuel high-quality deposits that increased by $2.7 billion sequentially, and we ended the quarter with nearly $12.7 billion in deposits. Importantly, more than 90% of our consumer deposits are from sticky direct deposit members and nearly 98% of our deposits are insured. Our cash and cash equivalents, excluding restricted cash, increased by $528 million since March 31 to $3 billion, reinforcing our strong liquidity position.

We grew our tangible book value by $14 million. We remain well on track for GAAP profitability by Q4 and a few trends stand out in support of this anticipated achievement. Lending net interest income of $232 million exceeded Lending directly attributable expenses of $139 million. Adjusted EBITDA of $77 million exceeded stock-based compensation expense of $76 million for the second consecutive quarter. And Financial Services contribution loss improved by $20 million versus Q1 2023 to a loss of just $4 million well on its way to reaching positive contribution profit.

From a member and product perspective, I would highlight the following: we added a record number of 584,000 new members in Q2 '23, bringing total members to 6.2 million, up 44% year-over-year. Our second highest quarter ever of new products in Q2 of 847,000 brought total products to 9.4 million, up 43% year-over-year. Financial Services products of 7.9 million at quarter end grew by 47%, while Lending products of over 1.5 million were up 25% year-over-year.

And lastly, strong growth due to the increasing word-of-mouth virality of SoFi's products as well as our efforts to drive greater unaided brand awareness. As an example, our recent “Changing the face of finance” campaign, which is challenging society's gender bias with respect to women and personal finances resulted in over 72 million impressions in the first five weeks. We have driven this growth with improving efficiency as our full suite of differentiated products and services has continued to resonate with both new and existing members.

Now I'd like to spend time touching on segment level results and trends. Lending adjusted net revenue of $322 million grew 29% year-over-year. The personal loans business maintained its strength in the quarter as we originated a record $3.7 billion, up 51% from the $2.5 billion in Q2 '22. Our underwriting model and our focus on high-quality credit have resulted in dependable performance of these loans as our annualized net charge-off rate was lower quarter-over-quarter at 2.94%. Within student loans, we had another quarter of low origination levels, but for the first time in three years, we have clarity for the business as we look toward the latter half of this year.

Within home loans, we nearly tripled our originations sequentially, aided by the increased capacity and capabilities via our small acquisition at the beginning of the quarter. Increased capacity and functionality allowed us to launch VA loans helping deserving veterans find homes with exclusive rates, no origination fees, no down payments and dedicated loan officers. We continue to fully leverage the benefits of our bank license to drive great economics in both our Lending and Financial Services businesses.

This has resulted in strong net interest income and sequential NIM expansion as lower cost deposits on our balance sheet have grown. As of the end of Q2, 50% of our loans were funded by deposits, and our $2.7 billion of new deposits raised in the quarter was essential in funding our $4.4 billion of total originations in the most cost-effective way. Our lending capacity remains robust with over $20 billion in total capacity to fund loans and meet our liquidity needs: with $13 billion of deposits that have grown by over $2 billion a quarter, $3 billion of equity capital and over $8 billion of warehouse capacity.

Lastly, the bank contributes to strong growth in SoFi Money members, high-quality deposits and increasing levels of spending. This has led to high average account balances even as average spend has increased. SoFi Money members have increased nearly 47% year-over-year to 2.7 million accounts. Given the quality of these members with a median FICO score of 747 for a direct deposit portfolio, we see ample opportunity for cross-buy. More than 50% of newly funded SoFi Money accounts are setting up direct deposit by day 30, and this has had a significant impact on spending. Q2 annualized spend was over 2.7x full year 2022 spend, and Q2 spend per average funded account was up 13% quarter-over-quarter.

Within Financial Services more broadly, net revenue more than tripled year-over-year to $98 million and grew 21% sequentially from Q1 '23. This significant revenue growth is driven by three vectors. The first is strong member growth across SoFi Money, Invest, Credit Card and SoFi Protect. The second is cross-buy as the growing member base takes full advantage of our platform. And the third is monetization. Revenue per financial services product has doubled year-over-year to $50 driven by higher deposits and member spending levels in SoFi Money, greater AUM in SoFi Invest and stability within SoFi Credit Card spend. We expect all three trends to continue their growth momentum.

Despite the continued investment in customer acquisition, we have significantly improved the profitability of the Financial Services segment. Financial Services Q2 contribution loss was just $4.3 million, which is a $20 million improvement over a $24 million loss in Q1 '23 and the $44 million loss in Q4 2022. We are seeing significant improvement in unit economics, driving greater operating leverage. The improvement in variable profit per account is a result of higher monetization rates and lower customer acquisition costs due to marketing efficiency and cross-buying.

The improved unit economics and the scale of members is driving meaningfully greater variable profit dollars than our total acquisition costs. We expect the total Financial Services segment variable profit to exceed our segment fixed cost in Q4, at which point we expect all three of our business segments to post positive contribution profit.

Our strong member and product growth reflects our culture of relentless iteration across our five key points of differentiation. For instance, in Q2, we raised the APY on

our savings deposits to 4.3% and have since raised it again to 4.4%. We launched SoFi Travel in partnership with Expedia, which includes member discounts and 3% cash back rewards on bookings made with the SoFi Credit Card. SoFi Travel represents our first effort to help our members spend better, the next phase in SoFi's mission to help our members achieve financial independence.

Selection is one of our key points of differentiation across our products. Earlier this month, we were the sole retail distributor of the Oddity IPO, which should be the beginning of a robust pipeline of IPOs after a long drought due to the dampened Capital Markets IPO activity. Despite our demand being many times oversubscribed, we were able to make an allocation to every single member who confirmed an indication of interest. The differentiation and selection by offering IPOs for Main Street at IPO prices helps drive strong impressions and bring people onto the platform. And Oddity was no exception. Marketing related to the deal drove a total of 8 million impressions, which not only bolsters the growth in new investment members and more AUM, but also increases brand awareness and member growth for the entire platform.

For our Technology Platform, record full segment revenue of $87.6 million saw a growth of 13% quarter-over-quarter with a 20% margin at the segment level. Importantly, we expect the year-over-year growth rate in Technology Platform revenue to accelerate by Q4 with increased contribution from new partners to the platform, along with greater product adoption among existing partners.

Tech Platform's overall diversified growth strategy includes growth in new vertical segments, most notably B2B partners, new products and new geographies as well as a focus on partners with large existing customer bases with more durable revenue streams and growth prospects. In Q2, Galileo signed five new clients and made significant strides against this strategy with 100% of new signed clients bringing existing customer bases or portfolios, which drives much faster time to revenue generation compared to a start-up company, along with the growing pipeline of joint opportunities selling combined Galileo and Technisys offerings into an expanded customer base.

Technisys saw record revenue in this quarter and continues to make strides towards continued growth, bringing four clients live within the quarter. We've also experienced great product uptake in new products such as our Payments Risk Platform product,

which helps reduce transaction fraud by leveraging our unique data and algorithms, as well as Konecta, our natural language AI-driven chat bot, which provides faster resolution of customer contacts and reduce contacts per customer for our partners as well as SoFi brands.

I'll finish here by saying how proud I am of our team's relentless ability to not just persevere through the disruption of volatility of the Financial Services industry in the first half of the year, but to deliver record results driven by the very businesses that were vulnerable to that volatility in our Technology Platform and Financial Services segments. I could not feel more blessed by our great team's ability to execute, and importantly, our over 6 million members that have been so critical in making our vision of being a one-stop shop for all of your financial needs to become such an amazing reality.

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

Christopher Lapointe^ Thanks, Anthony. Overall, we had a great quarter with growth trends across the entire business. We achieved record revenue and adjusted EBITDA despite operating in a rapidly evolving macro backdrop amidst notable Financial Services industry headwinds. I'm going to walk you through some key financial highlights for the quarter and then share some color on our financial outlook. Unless otherwise stated, I'll be referring to adjusted results for the second quarter of 2023 versus second quarter of 2022.

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 week. For the quarter, top line growth remained strong as we delivered record adjusted net revenue of $489 million, up 37% year-over-year and 6% sequentially from the first quarter's record of $460 million and above our Q2 guidance of $470 million to $480 million.

Adjusted EBITDA was $77 million at a 16% margin, also above the high end of our most recent guidance of $50 million to $60 million and ahead of the prior record quarter. This represented 10 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 revenue for the sixth consecutive quarter, with marketing intensity approximately 300 basis points lower relative to Q2 2022.

Overall, this resulted in a 43% incremental adjusted EBITDA margin year-over-year. Our GAAP net losses were $48 million this quarter, which is a $48 million improvement year-over-year. We saw notable year-over-year leverage in stock-based compensation, with SBC dropping to 15.5% of adjusted net revenue versus 23% in the prior year period. Incremental GAAP net income margin was 36% for the quarter, which represents further progress toward our expectation of GAAP net income profitability in Q4 of 2023.

Now on to the segment level performance, where we saw strong year-over-year growth across all 3 segments. In Lending, second quarter adjusted net revenue grew 29% year-over-year to $322 million. Results were driven by a 103% year-over-year growth in our net interest income, while non-interest income was down 30%. Growth in net interest income was driven by a 117% year-over-year increase in average interest-earning assets and a 289 basis point year-over-year increase in average yields, resulting in a net interest margin of 5.74% for the quarter, which is a 50 basis point expansion year-over-year and importantly, a 26 basis point expansion versus Q1 2023.

I'd also highlight our $2.7 billion of deposit growth in the quarter compared to the $2.4 billion of net loan growth on the balance sheet period-over-period. With 216 basis points of cost savings between our deposits on our warehouse facilities, this has resulted in a meaningful benefit to our net interest margin and has underscored the advantage of holding loans on the balance sheet and collecting net interest income.

Looking forward, we expect to maintain a very healthy net interest margin as a result of 2 things: first, the mix of funding will continue to move towards deposits; and second, we expect to continue to pass on benchmark rate increases for new loan originations to our weighted average coupon. On the noninterest income side, Q2 originations grew 37% year-over-year to $4.4 billion and were driven by record volumes in our personal loans business, which grew 51% year-over-year to $3.7 billion. However, student loan originations were down 1% year-over-year and home loans by 27% year-over-year as macro factors continue to provide headwinds to these businesses.

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In the second quarter, we sold portions of our personal loans, student loan and home loan portfolios. In terms of execution levels on these sales, in the personal loans business, we executed a sale at 104.1% excluding hedges and 104.5%, including hedges. For student loans, we executed at 101.5% excluding hedges and north of 104%, including hedges. For home loans, we executed at 101.2% excluding hedges and north of 102% including hedges. This quarter, we maintained our stringent credit standards and disciplined focus on quality, which has led to continued strong credit performance.

Our personal loan borrowers weighted average income is $164,000 with a weighted average FICO score of 745. Our student loan borrowers weighted average income is $163,000 with a weighted average FICO of 768. 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 40 basis points in Q2 2023, while our annualized personal loan charge-off rate was down sequentially to 2.94%.

Our on-balance sheet 90-day student loan delinquency rate was 13 basis points in Q2 2023, while our annualized student loan charge-off rate was 42 basis points. We continue to expect very healthy performance relative to broader industry levels. The Lending business delivered $183 million of contribution profit at a 57% margin, up from $142 million a year ago, also at 57% margin.

Shifting to our Tech Platform, where we delivered record net revenue of $88 million in the quarter, up 4% year-over-year and 13% sequentially. Overall, annual revenue growth was driven primarily by Galileo account growth to $129 million in total. We also signed 9 new clients across the platform. The segment delivered a contribution profit of $17 million representing a 20% margin, which is up quarter-over-quarter. Notably, as we expect to see an acceleration in year-over-year Technology Platform segment revenue growth by Q4, we also anticipate continued margin expansion.

Moving on to Financial Services, where net revenue of $98 million increased 223% 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 reaching $50, more than double the same prior year period and up over 9% sequentially.

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We reached 7.9 million Financial Services products in the quarter, which is up 47% year-over-year, and we continued to see strong quarterly product adds with 759,000 new products in the segment versus the prior quarter at 584,000 new adds. We hit nearly 2.7 million products in SoFi Money, 2.3 million in SoFi Invest and 2.6 million in Relay. Contribution losses were $4 million for the quarter, which improved by over $49 million year-over-year and nearly $20 million sequentially as we start to see operating leverage in the segment. We continue to expect positive contribution in the segment by Q4 of 2023.

Switching to our balance sheet, where we remain very well capitalized with ample cash and excess liquidity. Having SoFi Bank further reinforces our strong balance sheet and provides us with more flexibility and access to a lower cost of capital relative to alternative sources of funding. In Q2, assets grew by $3.1 billion as a result of a $528 million increase in cash and cash equivalents, highlighting our strong liquidity position and access to cash as well as adding loans to the balance sheet given the impressive growth we continue to see in the personal loans originations.

On the liability side of the balance sheet, we saw significant growth in deposits as they grew to nearly $13 billion, up $2.7 billion sequentially versus $2.7 billion in the prior quarter and $2.3 billion in Q4 of 2022. Because of this, we exited the quarter with $4 billion drawn on our $8.5 billion of warehouse facilities. In addition, in the second quarter, we extended our corporate revolver for another five years and upsized it to $645 million. This further highlights our strong liquidity position, particularly in the current market environment. In terms of our regulatory capital ratios, our total capital ratio of 16% as of the end of the quarter remains comfortably above the regulatory minimum.

Let me finish up with 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, a keen 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.

In the second half of the year, we expect to deliver $1.025 billion to $1.085 billion of adjusted net revenue and $180 million to $190 million of adjusted EBITDA, with a more

significant portion of the revenue and EBITDA expected to be generated in Q4. As we move toward expected GAAP net income profitability in the fourth quarter, we expect stock-based compensation and depreciation and amortization expenses to be slightly higher than reported Q2 levels in both the third quarter and fourth quarter of the year.

This guidance implies full year 2023 revenues of $1.974 billion to $2.034 billion above our prior guidance of $1.955 billion to $2.02 billion. Our second half guidance implies full year 2023 adjusted EBITDA of $333 million to $343 million, above our prior guidance of $268 million to $288 million. This represents a 40% to 44% incremental adjusted EBITDA margin for the full year.

Overall, we couldn't be more proud of our Q2 results and continued progress, having delivered $489 million of adjusted net revenue and $77 million of adjusted EBITDA, we continue to make great progress against our long-term growth objectives, and remain very well capitalized to continue pursuing our ultimate goal of making SoFi a top financial institution.

With that, let's begin the Q&A.

Operator^ (Operator Instructions) Our first question comes from John Hecht from Jefferies.

John Hecht^ Okay, thank you, thanks guys, good morning, and congratulations on a great quarter. Chris, you gave a few details about some sales of different categories of loans. Maybe give us a little bit more on the execution, the details on the execution of those sales?

Christopher Lapointe^ So in aggregate, we ended up doing about $340 million of whole loan sales in the quarter. Our PL whole loan sale was a $50 million sale at an execution level of 104.1% excluding hedge gains in period, and it was 104.5%, including hedge gains. As of the end of Q2, the PL book was marked at 104.1%. Our student loan sale was a $100 million sale at an execution level of 101.5%, excluding hedges, and about 104%, including hedges.

At the end of Q2, the student loan book was marked at about 101.9%. But what I would say is the important thing to note here is that, that $100 million sale were in-school loans with significantly lower weighted average lives than the overall portfolio, so they have lower value. However, these specific loans were sold at a higher execution than where they were marked. The remaining $190 million of sales were home loans at an execution of 101.3%, excluding hedges and north of 102%, including hedges. And as of the end of Q2, the home loans book was marked at 89.2%.

As discussed in the past, we remain very well capitalized. We raised $3.6 billion in 2021. We have access to over $8.5 billion of warehouse lines, only $4 billion of which is currently drawn, and our bank deposit base of nearly $13 billion is really growing quite nicely. Given this flexibility, we'll always maximize returns on loans that we originate as well as the overall firm ROE. And that's going to take different forms, given the market environment that we're operating in at the time. This quarter, we ended up doing a few small sales to keep channels open, but we remain very focused on maximizing returns, which means holding these loans for a longer period of time.

John Hecht^ Okay. That's great. Thank you for those details. Second, and maybe for Anthony. I mean there's still a lot of momentum in new customer adds. Maybe talk about the channels, is there any mix shift on where you're finding these customers, and how you're finding the customers and any change in characteristics of the new customers?

Anthony Noto^ Yes. Thank you, John. For the last 5.5 years, our number one objective in marketing has been to build our unaided brand awareness. Unaided brand awareness is measured when you ask 100 people when you need a Financial Services product, who do you think of? And when we joined the company in 2018, 2 out of 100 would say SoFi. We've had our unaided brand awareness reach high single digits. It bounces around a little bit, but it's pretty herculean effort to go from 2% to high single digits. Of the top banks in a country, top five banks in the country are anywhere between 20% and 30%.

As we drive the unaided brand awareness, we're building trust, we're becoming a household brand name. Parallel to that, we're doing digital marketing. We're doing other forms of traditional marketing to try to optimize our customer acquisition cost and scale our customer growth -- our member growth as well as our product growth.

And I think this quarter is the first quarter that I can say I feel really confident that the flywheel is really working.

And what I mean by that is, we're seeing efficiencies in our customer acquisition cost, and those efficiencies are really more correlated with the unaided brand awareness being increased in addition to the fact that our marketing and product teams are iterating every day through technology and content information analytics to drive those efficiencies. One of the reasons that we're going to be able to achieve contribution and profitability in the Financial Services segment, which we're still spending a vast amount of money on acquisitions that doesn't pay back for 12 or 24 months, is because we're really now the unit economics in the customer acquisition cost.

We're starting to feel the benefits of virality. We're starting to feel the benefits of efficiency by product and then, of course, the cross-buying. At the same time that our monetization is improving. So I wouldn't point to one specific channel or one specific effort. It's the holistic approach that we've taken over the last 5.5 years, that is really starting to pay off in the quarter and as we look into Q3 as well.

Operator^ (Operator Instructions) Our next question comes from Dan Dolev from Mizuho.

Dan Dolev^ Anthony and Chris, great results, really amazing. I do have one question only, which is I noticed that the noninterest income in Lending declined this quarter. Can you give us some color on why that's going on?

Christopher Lapointe^ So the noninterest income declined sequentially, and that was a function of fair market value write-downs, which was due to increases in interest rates. And we also had an increase in absolute dollar amount of PL write-offs. Now while our dollar charge-offs were up sequentially, as I mentioned in my prepared remarks, our annualized charge-off rate in the quarter for our personal loans business was 2.94%, which was down from what it was in Q1.

As we've discussed in this current market environment, we do expect net interest income to contribute more meaningfully to the Lending segment revenue. That's because we're seeing a much better return by holding loans for a longer period of time

and generating net interest income versus selling or generating near-term monetization opportunities.

Now specifically speaking about the fair market value write-downs, the marks on our loans across all products ended up decreasing period-over-period. In the personal loans business, specifically, the fair market value marks decreased from 104.3% to 104.1%, so it was down 20 basis points. This was a function of the discount rate increasing by 60 basis points to 6.1%, and that was a function of the two-year treasury swap rate, increasing by about 69 basis points and spreads tightening by 10 basis points as a result of secondary trade observations.

This was partially offset by the portfolio weighted average coupon increasing by 40 basis points to 13.6% and the conditional prepayment rate assumption decreasing by 10 basis points to 19%. The annual default rate in our assumptions in the marks remained at 4.6%, which was the same as Q1. The one thing that's important to note here is the actual realized Q2 annual default rate was 2.94%, down from the prior quarter. That means what we were actually observing in terms of losses in the quarter are 166 basis points per year or 250 basis points over the life of the loan below what is embedded in our current mark of 104.1%.

In the student loan business, the fair market value mark decreased from 102.6% to 101.9%, so it was down 70 basis points sequentially. This was a function of a few things. First, the discount rate ended up increasing by 30 basis points to 4.4%. That was a function of the benchmark rate increasing by 50 basis points and spreads tightening by about 20 basis points. Second, the CDR embedded in the market increased by 10 basis points to 50 basis points. And then third, the CPR embedded in the market increased by 20 basis points to 10.6%.

Collectively, these were partially offset by the portfolio weighted average coupon increasing by 10 basis points to 5%. The important thing to note here is that the actual realized Q2 annual default rate was 40 basis points. That means what we're actually observing in terms of losses are 10 basis points per year or 50 basis points over the life of loan below what is embedded in the current mark of 101.9%.

Operator^ Our next question comes from Mike Perito from KBW.

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Michael Perito^ Hey Anthony, Chris, good morning, thanks for taking my question. I wanted to switch gears a little and ask a question about the balance sheet. I was just wondering, when you think about the 2H guide and the full year guide, Chris, I mean, can you maybe give us a little bit of a sense of what type of balance sheet growth you expect? I mean the capital ratios are still fairly healthy today, but continue to move down. Is it fair to think that with the elongated hold period on some loans, there will be some more amortization and then the balance sheet rate of growth should slow from here even with strong originations expected to continue? Or how are you guys thinking about that?

Christopher Lapointe^ Yes, sure. What I would say in terms of overall growth from an asset perspective, I would expect similar growth to what we've seen over the course of the last few quarters, but we are seeing an uptick, obviously, in the amortization down as a result of pay downs. And then on the liability side, we are expecting continued healthy growth from deposits. We'll be able to grow this quarter over $2 billion, where we're expecting to grow over $2 billion again. So net-net, you could see similar growth in the balance sheet relative to what you saw this past quarter. In terms of capital ratios, as you mentioned, those remain extremely healthy in the mid-teens across the board. and we have sufficient capital to deploy.

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

Kevin Barker^ Good morning, thank you. I'd like to follow up on the NIM. Obviously, it was really strong this quarter as you continue to grow, particularly with the personal loans becoming a real driver of that and the yields that you've been seeing there. Now as we look into the end of the year, we expect student loan refis to pick up. Would you expect a little bit of pressure on the net interest margin as you transition more towards student lending versus personal lending? Or do you feel like the growth maybe could accelerate on the asset side, just given a pickup in refis from student loans, coupled with momentum on the personal loan side?

Christopher Lapointe^ Sure. What I would say in terms of Q3, we do expect NIM margins to remain very healthy, but we are taking a conservative view, and that's what's embedded in our overall guidance in the back half of the year, given potential

increases in cost of funds and various pricing strategies as well as the mix shift in our loan originations to student loan refinancings, particularly in Q4. As you know that there's a lag between how we price our loans relative to when the Fed moves rates given that we price to the forward curve, which impacts our cost of funds once the Fed increases, but we do anticipate being able to maintain very healthy NIM margins. As you saw, they were up sequentially to 5.74% this quarter.

Operator^ Our next question comes from Andrew Jeffrey from Truist.

Andrew Jeffrey^ Thanks, good morning, appreciate you taking the question. The deposit growth is super impressive and remains strong and obviously, a real source of differentiation. I wonder, Chris and/or Anthony, if you could comment just on a couple of aspects of that. One, sort of the sustainability or in fact, potential for acceleration, I think, especially given the fragmentation of the banking industry and the introduction of FedNow? And just, two, how do you view that very high or market high APY and sustainability thereof as you see more competition from similarly high-yielding accounts out there from other providers?

Anthony Noto^ Yes. We're super excited about the progress that we've made over the last 1.5 years of having the ability to set our own APY on SoFi Money and then to benefit from those high-quality deposits and lower our cost of funds on the Lending side, which is really causing the whole P&L to work well together and a clear competitive advantage. As it relates to deposits, 90% of our deposits are consumer deposits and are from direct deposit customers, which is a heck of an achievement given that we're adding $2-plus billion a quarter.

We want to make sure that we are a primary relationship with our members, given our strategy of building a relationship with them with the first product and building that trust and reliability, so when they need a second product, they come to SoFi. So we're going to continue to be very purposeful and focused on high-quality deposits and high-quality growth. We're confident that we can continue to add $2 billion of deposit per quarter on the back of member acquisition on SoFi Money. We're also confident that we can continue to compete with anyone on APY. That's a rational company.

And what I mean by that is we are very unique in that when we bring in deposits at that 4.4% APY that you get without fees, those deposits and funding businesses that have an even higher yield against them in our origination platform. Many of the people that compete in the APY top tier that we compete in do not have that same origination platform and can't generate the same type of yield off of the deposits that we can. And so we have an advantage as it relates to being both an originator of loans and obviously a bank with the deposits that are insured up to $2 million.

In addition to that, we also have the benefit of those money members coming in and buy another product that has great variable profitability and even better when we don't pay for that customer acquisition cost. So for example, illustratively, these aren't the exact numbers, let's say, we make about $700 in variable profit on the loan and the customer acquisition cost for that loan is also $700, which is taken out of variable profit.

If someone cross buys into that loan product for money, we acquired a money customer at less than $50, less than $25 often. They cross-buy and the profitability of that loan goes from $700 to $1,400. So there's great leverage there. We haven't begun to leverage that type of benefit in terms of thinking about the APY. We're really excited that when rates start to decline and other banks can't maintain the level of APY that we can, how competitive we can be versus them.

So we're maintaining high-quality deposit acquisition. We're going to leverage our competitive advantage to stay at the top tier of that APY and just make sure we focus on quality over quantity.

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

Mihir Bhatia^ Good morning and thank you for taking my question. I wanted to maybe go back to the discussion about the Financial Services productivity now for a second. I was just wondering if you could just talk a little bit more about that. Specifically, when you look at Slide 7, is there a specific ratio where you expect that ratio of Financial Services products to Lending products stabilize around. Obviously, your product per member seems to have stabilized right now around this 1.5 mark, which is very impressive given the growth in members, but just wondering about just the other

ratios. And relatedly, if you could also just talk about the major cross-buy channels that you currently have? And how you see that evolving?

Anthony Noto^ While we're growing our member base, this quarter was 44% with a record number of new member adds. While we're growing the member base so quickly, that's in the denominator, it's unlikely that the 1.5 products per member that you're using for total products and total numbers is going to go up. In fact, I think it's a herculean effort that it's actually stayed stable at 1.5. Typically, if your member base, the denominator was growing that fast, it would put pressure on the quotient of 1.5. And then over time, as the member base slowed, the product growth would accelerate and that number would start to go up.

We're at 1.5 today. The numerator is growing very fast.. I'd say expect it to stay in about that range. I wouldn't expect it to start to move up until the member growth really slowed quite meaningfully because there is a lag between when a member comes on to the platform and when they take out a second product. And so it's really significant that we're maintaining that 1.5.

Overtime, my hope would be that they have three, four, five products with us. Hopefully, they have every product they have with us. We want that lifetime relationship to be with them for all of their needs. And so we're going to continue to not just build trust with them, but add product selection, so we can be there for all of the major decisions that they make and all the days in between.

As it relates to the cross-buy channels, we provide that slide in the investor deck to kind of give you a sense for the products with the highest scale and the most data are the products that are the best at driving cross-buy. So if we have a primary relationship with the SoFi Money member, and we have their direct deposit. We see what bills they are paying. We see what loans they're paying. We see if they have excess cash that should be invested in vehicles outside of just yielding on the savings account. We see if they're not able to generate discretionary spend that should be invested.

If they're not investing in their 20s, it's really hard for them to get to the point that they have financial independence to catch up later on. And so that primary relationship gives us really great data about their mortgage, about student loans, about budgeting, so we

can help them get their money right. The Relay product is something we don't talk about that frequently because it doesn't directly drive revenue, but it's also a big contributor to cross-buy and a huge contributor on the data side.

I have all of my accounts, my credit cards, savings accounts, checking accounts, across my entire family connected. And I can see real time and really every transaction that's happening with any of my money anywhere. It not only gives me great insight on how to budget, but also gives me a good insight in where there are areas of inefficiency that I can drive favorable budgetary decisions behind. Not to mention we also get mortgages through Relay. We also get student loans through Relay and then, of course, credit cards and the refinancing of personal loans.

Operator^ Our next question comes from Eugene Simuni from MoffettNathanson.

Eugene Simuni^ Thank you, good morning, guys, congrats on strong results. I wanted to ask about student loans. Obviously, we're coming close to the end of the moratorium. So it would be great to hear your latest perspective on the level of demand we can expect for refis in Q4 as you're kind of staring at your specific demographic that you're targeting, some maybe more affluent customers and the level of interest rates that we are at today.

Anthony Noto^ So why don't we start off by sort of giving one number and also our point of view on student loan refinancing. We're really happy for the American people and that our administration has made a decision on the outlook for student loans. So families can plan accordingly. It is going to be a huge burden for many of them. And the more they know the better they can plan for the future, and we're here to help them in any way that we can. There's over 40 million Americans that still have federal student loans. Think about that number, 40 million Americans. We haven't even refinanced 1 million student loans in our history. In SoFi's entire history, we have not refinanced more than 1 million student loan, federal student loans, including private student loans.

And so the opportunity in front of us starts with 40 million, and then you can break it down from there based on demographics, based on interest rate, based on term to kind of understand the addressable market. Chris will walk you through sort of our assumptions. One of the biggest points people really need to remember is that market

is very large and people have various different budgetary constraints. Some may refinance at a lower rate and therefore, save based on the interest rate, and some may refinance just to lower their monthly payment because there's no penalty for prepaying. There's no penalty for refinancing multiple times. You have no closing costs, no origination fees, no fees tied to it.

So if someone needs to create a little bit of cushion in their budget by going from a $500 payment a month of $250, they can do that with no consequences because as rates do come down, they can then refinance again. If rates don't come down, but they want to pay it off in the same term, they can prepay each month more than they're supposed to. So it will be interesting to see what happens over the next six months, and I'm sure there will be a battleground for many of you talking about what the outlook is. But over the next 10 years, I think it's an exciting opportunity, and we're glad to be back in the business.

Christopher Lapointe^ Yes. So specifically related to our H2 guidance, our outlook currently assumes that we're going to be operating at our current run rate origination levels in the student loan refinancing business 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.

Operator^ Our next question comes from Michael Ng from Goldman Sachs.

Michael Ng^ Hey, good morning, thank you very much for the question. I was just wondering if you could provide a little bit more color on your expectation that a more -- a bigger portion of the revenue and EBITDA is going to be more 4Q weighted? What are some of the key assumptions around that? Is that just the student loan assumptions you just laid out? And then just as a quick follow-up, I was wondering if you could let us know if the Oddity IPO has any impact to Financial Services revenue and profits? If I recall, I think when you guys did the retail distribution for Rivian and Nubank, there was a little bit of an uplift there, but any thoughts there would be helpful.

Christopher Lapointe^ Sure. So as I mentioned in my prepared remarks, from a phasing perspective, we expect more robust revenue and EBITDA generation in Q4 versus Q3. We aren't providing detailed segment level guidance, but one thing I will say is that we

expect relatively flattish Q3 revenue in our Tech Platform, ahead of an acceleration in growth in Q4 and additional strength in the latter part of the year from our student loan refinancing business. In terms of profit trends, we're going to be front-loading marketing investments with sequential EBITDA expected to be marginally above where consensus is today for Q3 at $58 million, and we expect to see more of a ramp in Q4 EBITDA and achieved GAAP profitability in Q4.

On the Oddity IPO?

Anthony Noto^ On the Oddity IPO, that we do get fees in these IPOs, they're not that material. The Oddity IPO is a very big differentiator for our members that have invest accounts and our members that open invest accounts in that. We're the only place that you can buy that in retail at IPO prices, and we really benefit from having that unique selection and acquisition and also AUM, which then leads to revenue. So there is some direct revenue from underwriting or being a selling agent, but the bigger benefit is to growth in members and growth in our AUM.

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

Reginald Smith^ Hey good morning and congrats on the quarter. Two quick questions, the first for Anthony. You talked about becoming a top 10 bank, and I was curious how you define and measure that. The second question is for Chris, real quick. I appreciate your disclosure on the loan sales. I was curious on those personal loans as you definitely related the price back to your mark. I was curious what the APR was on those? Is it similar to the broader portfolio of 13.6% or was it higher or lower?

Anthony Noto^ Sure. On top 10, it's top 10 financial institutions, and it's measured by market cap.

Christopher Lapointe^ And on the second, the portfolio that we ended up selling had a higher weighted average coupon, but a shorter duration. So net-net resulted in an execution level similar to where the book is marked today.

Operator^ Our next question comes from Dominick Gabriele from Oppenheimer.

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Dominick Gabriele^ Hey thanks so much, and good results. I was just curious about the incremental EBITDA margin. I think the revenue is similar to what we were expecting for the year, but the EBITDA margin is significantly better and above the 70-30 split that you guys usually talk about, about reinvestment. And then when you couple that with the stock-based comp and depreciation perhaps staying elevated, it means that there's some real expense synergies coming through in the underlying business. And I was wondering what your feel is on investments moving forward and if the 70-30 rule has changed. And where in the expense lines, G&A, technology and product development, any of those buckets you could talk about where you're seeing the most leverage to really raise this incremental EBITDA margin guidance?

Anthony Noto^ Sure. Let me kick off. First thing I'd say is our long-term view is 70-30. So as you think about 2024, definitely warrant your mind around 30% incremental EBITDA margin. The world has been very uncertain this year, and that's probably one of the biggest understatements I can make. And because the world has been uncertain, we've held back some investment going into quarters to see where revenue comes out. So that we're certain we can always deliver on EBITDA and on GAAP net income and EPS.

As the quarter unfolds, we see opportunities to release some of that cushion and to spend it in acquisition. It still happens. Our business is doing very well. We obviously saw the first time in our history that 50% of our revenue growth year-over-year was actually driven by non-lending businesses.

If you look at the change in the Financial Services segment and the change in the Technology segment year-over-year in dollars, there was even the change in the non-GAAP Lending revenue. So they were equal for the first time. Well, as that growth rate continues, we get a lot of operating leverage in those two segments and it allows us to drive more to the bottom line because they're high incremental margin businesses. And in fact, FIS, Financial Services segment lost $24 million in Q1 and lost only $4 million this quarter, and that's down from $44 million in Q4.

So we're seeing great unit economics, and we're seeing great operating leverage covering our fixed costs in those two businesses, and that's contributing to more profitability. We have a goal this year being GAAP profitable. Our number one goal is to make sure we're driving toward financial outcomes as it relates to the business. We

want to serve our members well to do that. But based on where we've seen incremental margins throughout the year and based on the investment opportunities we have in front of us and the efficiency of those opportunities, we're going to drive more profitability in the back half of the year than we otherwise anticipated.

Chris can talk to the line items that we're seeing there, but I'd say it's both better unit economics and the fact that we're finally exceeding our fixed costs. And then I want to revisit one question someone said about accelerating the growth. We're going to focus on quality over quantity. But I will tell you, once we achieve GAAP profitability and we cover acquisition costs, we will have much more of a license to more aggressively spend in acquisition at that 30% level.

Christopher Lapointe^ Yes. So Dominic, in terms of where we're seeing the real leverage, it's really across all functional expense lines. As I noted in my prepared remarks, sales and marketing as a percentage of revenue was down 300 basis points year-over-year. Our technology and product development expenses as a percentage of revenue were down 200 basis points, operations down 300 basis points and G&A down about 800 basis points. So we're really doing a nice job of being able to achieve leverage across the entire system, and we expect that to persist going forward.

Operator^ Our next question comes from Timothy Chiodo from Credit Suisse.

Timothy Chiodo^ Great. Thank you. I wanted to talk a little bit about some of the new client wins that you announced for Galileo. If you could just add some context around, to the extent you can, on sizing or if these are the sort of the majority of the programs coming over to you. You mentioned that they have existing accounts, assuming that they're relatively established programs. And also, if you could touch on where they were before, if they were with more of one of your more modern competitors or one of the more traditional competitors?

Anthony Noto^ Thank you for the question on Tech Platform. I'm really proud of the team and the transition that we decided to make in 2022 and where we've gotten to in 2023. It wasn't an easy decision to walk away from a lot of these easy start-up types of deals that we can announce on the call and in dozens of quantities and then they were

trickling with hundreds of thousands of dollars, but a lot of distraction from our team and a lot of focus on resources given their young nature.

We understood long term that our technology is incredibly unique, and the technology stack we have with both in multiproduct core that's modern in the cloud with processing that's in the cloud, in addition to some other great products that sit on top of the platform, like our Payments Risk Platform and Konecta that we could go to market and fight with all the competitive set against the biggest deals in the United States and LatAm.

We're really encouraged by the number of requests for proposals that we're seeing from large institutions. These things take time. These are large institutions. Our sense is they're under pressure from regulators to upgrade their technology, and they also want to modernize their technology so they can be more innovative and they can be more reactive in real time to different regulatory pressures as well as any disruption in the industry like we saw in the first half of this year.

So there's definitely sort of a tidal wave of need for new technologies, and we have that technology. So I'm really excited that we made that transition, and we have that suite of products. We're not going to win every deal. I'm comfortable with our fair share, it will take time.

In terms of the actual results, I would say we're seeing very small contributions from the new partners that we've added. It definitely was a benefit to the quarter and helped us on the upside. We're seeing still strong spending growth from our existing partners that are doing quite well. We're obviously anniversarying using a partner a year ago, which we made a tough decision on what was the right long-term decision versus the easier near-term decision. But we're now anniversarying that. And as Chris mentioned, we expect the tech revenue to be flattish in Q3 and then accelerate year-over-year in Q4 as we get more contribution from those new partners that are either already onboarded or that will be onboarded.

And I'm really excited about 2024 when the investments that we made this year and onboarding new partners start to kick in even more. So I think it will be a slow steady melt up in revenue over time with the acceleration on a year-over-year basis coming in

the fourth quarter. Nothing to announce on the big bank side or big finanical institutios] side. We're in conversations with every type of bank you could think of, large banks, regional banks, community banks, and then companies that are not banks, but have large consumer bases that they would like to offer Financial Services products to that we uniquely can do that with.

Operator^ Our next question comes from Robert Wildhack from Autonomous.

Robert Wildhack^ Good morning guys. I wanted to follow up on where the current book is marked down sequentially a bit for all the reasons you discussed, Chris. Do you think that, that will continue to drift lower in subsequent quarters? And if so, do you think that noninterest income and lending can stay at the $100 million level you hit in the second quarter?

Anthony Noto^ Yes. Let me start on that question. One thing I want to make sure people are paying attention to is what our weighted average coupon is. We're very fortunate in that we've built a sophisticated ability to test different price points against different credit backdrops. And we've been really successful in passing on higher rates in our loans as benchmark rates have gone. Now obviously, there are a number of factors beyond weighted average coupon, including spread in the benchmark rates and prepayments and defaults on our cost of funds, and I'll let Chris talk through that. But people really should pay attention to what we are doing with that weighted average coupon and how is that providing us some leverage uniquely in the marketplace versus competitors as we still gain a significant amount of volume.

I'll let Chris talk to the other components of it.

Christopher Lapointe^ Yes. So I already went through the details of where the marks are and how they changed quarter-over-quarter in terms of how we're thinking about or what we expect going into Q3 and the back half of the year. It's going to be dependent on what happens in the market. It's going to depend on what happens with rates. It's going to depend on what happens with charge-offs, prepayments, et cetera. We mark-to-market the book every single month, and we take into consideration all of the inputs that I outlined and what drove the changes quarter-over-quarter.

So it's highly market-dependent, and what I would say is in this type of environment given where rates are and the returns that we're generating on our loans by holding them, we would expect net interest income to be a much larger portion of the overall revenue pie for the Lending segment, but that could change depending on market environment.

Anthony Noto^ And hopefully, it's clear by our reported numbers how the yield we're getting on the loans is greater than the price people would be willing to pay. That should be obvious from the financials at this point.

Operator^ Thank you. I'll now turn it over to Anthony for any closing remarks.

Anthony Noto^ Thank you. People often ask me how? How did SoFi get to such an unprecedented point in being a digital one-stop shop for financial services? How did SoFi get to the point that so many companies over the last five years have endeavored to reach, while others now save their aspiration today? How does SoFi do what so many others strive to do?

The answer to what contributes to our success is simple. It's our team. It's our people. The people of SoFi that wake up every day focused on achieving our mission and building our culture so that we can change the lives of millions of people. And someday, hundreds of millions of people. Yes, that is hundreds of millions of people. Make no mistake about it, no company, no leader, no team has greater ambition or aspirations than we do at SoFi. No company is further along that journey than SoFi, and it's on me to ensure we win every second of every minute of every hour of every day.

Thank you for your time today, and I look forward to addressing you again next quarter.

Operator^ (Inaudible). That concludes today's conference call, everybody. Thank you very much for joining. You may now disconnect your lines. Have a lovely rest of your day.

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