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SoFi Technologies

Third Quarter 2023 Earnings

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CORPORATE SPEAKERS:

Maura Cyr
SoFi; Investor Relations
Anthony Noto
SoFi; Chief Executive Officer
Chris Lapointe
SoFi; Chief Financial Officer

PARTICIPANTS:

Andrew Jeffrey
Truist; Analyst
John Hecht
Jefferies; Analyst
Dan Dolev
Mizuho; Analyst
Mihir Bhatia
BofA; Analyst
Kevin Barker
Piper Sandler; Analyst
Ashwin Shirvaikar
Citigroup; Analyst
Jeffrey Adelson
Morgan Stanley; Analyst
Michael Ng
Goldman Sachs; Analyst
Dominick Gabriele
Oppenheimer; Analyst
Vincent Caintic
Stephens; Analyst

PRESENTATION:

Operator^ Good morning. And thank you for attending SoFi's third quarter 2023 Earnings Conference Call. (Operator Instructions)

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

Maura, please go ahead.

Maura Cyr^ Thank you. And good morning. Welcome to SoFi's third quarter 2023 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 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.

Before my formal remarks, I want to take a moment to recognize the devastating tragedy that is currently taking place in Israel, Gaza, and the surrounding regions. It's been incredibly difficult to witness the acts of terrorism and resulting war unfold over the past couple of weeks and what is sure to be tough days to come. The murder of innocent people is unacceptable in any form, and it's beyond belief that such actions are unfolding in the world today. With that, let's turn to our third quarter results.

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The third quarter at SoFi marked our tenth consecutive quarter of record revenue and fifth consecutive quarter of record adjusted EBITDA. We delivered strong diversified growth with record revenue and improved margins across all three of our business segments.

Among our notable achievements in the quarter, I want to highlight two major milestones: first, 67% of our absolute growth in adjusted net revenue dollars was driven by the non-lending businesses, specifically the Technology Platform and Financial Services segments; and second, our Financial Services segment achieved positive contribution profit for the first time, making all three reported segments profitable while bolstering our consolidated profitability even while we continue to invest aggressively for high levels of compounding growth for years to come.

These overall results are a testament to our ability to outperform in difficult or rapidly changing environments but also our ability to deliver on our goals and our overall mission while maintaining financial discipline and continuously setting new operational and financial records.

I'm excited to share more about this quarter's notable achievements. A few key financial achievements from the third quarter include adjusted net revenue of $531 million, rose 27% year-over-year. And importantly, all three segments recorded record revenue and we continued to diversify the revenue composition. Adjusted EBITDA of $98 million, represented a 48% incremental margin and a record 18% consolidated margin.

Our Financial Services segment achieved positive contribution profit of $3.3 million at a 3% margin versus a $4 million loss last quarter and a $53 million loss in the year ago quarter. Our Technology Platform segment had a contribution margin of 36% versus 20% in Q2 and 23% in the year ago quarter.

In our Lending segment, more than 77% of adjusted net revenue was net interest income, which grew 90% year-over-year to $265 million, nearly 2x lending directly attributable expenses of $139 million. That's to say our net interest income is now nearly 2x greater than our expenses. Segment contribution margin improved by nearly 300 basis points sequentially to 60%.

At the company level, excluding onetime items, incremental GAAP net income margin of 48% resulted in a loss of just $19.5 million versus $48 million loss last quarter and a $74 million loss in the year ago quarter. Earnings per share loss, excluding the impact of goodwill impairment was $0.03 per share. SoFi Bank reported $84.8 million of GAAP net income at a 19.3% margin, representing 13% annualized return on tangible equity. We remain well on track for GAAP profitability for the overall company by Q4 and in the years that follow.

From a balance sheet perspective, our unique value proposition in SoFi continues to fuel high-quality deposits that increased by a record of $2.9 billion sequentially, and we ended the quarter with nearly $15.7 billion in total deposits. Importantly, more than 90% of our consumer deposits are from sticky direct deposit customers, and 98% of our deposits are insured. Our cash and cash equivalents, excluding restricted cash, remained healthy at $2.8 billion, reinforcing our strong liquidity position.

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We grew tangible book value for the third consecutive quarter by a record of $68 million at the consolidated level. On a trailing 12-month basis, we generated $171 million in tangible book value growth. From a member and product perspective, we added 717,000 new members in Q3 '23, bringing total members to nearly 7 million, up 47% year-over-year and an acceleration in growth.

Our highest quarter ever of new products in Q3 of $1 million brought total products to $10.4 million at quarter end, growing by 45% year-over-year, also an acceleration with record product additions in both Lending and Financial Services. Even with this rapid growth in members, overall products per member remains 1.5x, reinforcing the appeal of our robust product suite and multiproduct adoption by existing members. Financial Services products of 8.9 million at quarter end grew by 50% year-over-year while Lending products of over 1.6 million were up 24% year-over-year.

I am incredibly proud of these accomplishments and the progress achieved on our march to making SoFi a household brand name. Our unaided brand awareness continues to grow as a result of successfully executing viral marketing campaigns, bolstered by key events at SoFi Stadium, improving customer satisfaction, driving word-of-mouth and the result of us truly helping people get their money right.

Now I'd like to spend some time touching on the segment level results and trends. Lending adjusted net revenue of $342 million grew 15% year-over-year. The personal loans business maintained its strength in the quarter with record originations up 38% from Q3 '22. Student loans, as expected, saw some increasing demand ahead of the resumption of student loan payments marking our highest origination quarter since Q1 of 2022. Within home loans, total originations were up 46% sequentially and 64% year-over-year despite a continued challenging rate environment for both purchase and refi.

We continue to fully leverage the benefits of our bank license to drive greater economics in both our Lending and Financial Services businesses. This has resulted in strong net interest income and sequential net interest margin expansion as lower cost deposits on our balance sheet have grown. As of the end of Q3, over 65% of our loans were funded by deposits, and our $2.9 billion of new deposits raised in the quarter were essential in funding our $5.2 billion of total originations and $2.8 billion in net loan growth in the most cost effective manner.

Our lending capacity remains robust with over $27 billion in total capacity to fund loans and meet our liquidity needs, which includes our $15.7 billion of deposits, $3 billion of equity capital and over $8.4 billion of warehouse capacity. Lastly, the bank contributes to strong growth in SoFi Money products, high-quality deposits and great levels of engagement. This has led to higher average account balances even as average spend has increased.

SoFi Money products have increased nearly 53% year-over-year to 3.1 million accounts. Given the quality of these members with a median FICO of 743 for our 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 account primacy, as expected, has had a significant impact on spending, which exceeded $1 billion in quarterly debit transaction volume, up 3.2x year-over-year and represents more than $5 billion of annualized debit transaction volume.

Within Financial Services more broadly, net revenue grew 142% year-over-year and 21% sequentially to $118 million, driven by continued strong monetization within the segment which Chris will cover in more detail later. What is most impressive in the Financial Services segment is that we reached $3.3 million in contribution profit despite still spending significantly across money, credit card and invest.

Moreover, the credit card and invest businesses are still in heavy investment mode, generating significant losses at a run rate of well over $100 million annually. As they scale acquisition in order to achieve variable profitability, they will eventually see positive contribution profit similar to how we delivered with SoFi Money.

Selection is one of our key points of differentiation across our products. During Q3, we enabled our Invest members to participate in 3 initial public offerings, including the Oddity IPO, the Instacart IPO and the Arm IPO. Providing retail investors access to IPOs at IPO prices, which was once unthinkable, is just another way we are working to help level the playing field for our members. This differentiation helps bring more people onto the platform while increasing brand awareness and member growth. We were delighted to see such high quality demand in these offerings and growth in our member base.

For our Technology Platform, full segment revenue of $89.9 million saw a slight acceleration in growth of 6% year-over-year. Importantly, as noted previously we expect the year-over-year growth rate in Technology Platform revenue to continue to accelerate into Q4 with increased contribution from new partners to the platform along with greater product adoption among the existing partners. Tech Platform's overall diversified growth strategy includes growth in vertical segments such as B2B and traditional financial institutions, new products and geographies and a focus on partners with large existing customer bases with more durable revenue streams and growth prospects.

In Q3, Tech Platform made significant strides against this strategy with the majority of new signed clients bringing existing customer bases and portfolios, which drives much faster time to revenue generation compared to a startup, along with a growing pipeline of joint opportunities selling combined Galileo and Technisys offerings into an expanded customer base.

The demand from traditional financial institutions and new categories is the most robust that we've seen. While the lead times for winning RFPs and ensuing integrations are long, measured in many quarters, not months, the transition to modern processing and modern cores is playing out in real time the way we envisioned it would.

On the product side, we continue to build and ship a diverse range of products for multiple sectors. We launched a corporate credit solution, which is designed to modernize expense management for both financial and nonfinancial corporations by introducing a central account with a single credit limit.

In addition, we've expanded our buy now, pay later offering to allow lenders to offer it as a form of working capital loans for small business clients, a great example of the joint Galileo and Technisys capabilities. And third, Galileo powered experienced launch of an innovative debit card program that allows users to improve their credit scores.

From a geographic perspective, we received Mastercard certification to provide our payment cards and processing services in 5 new LatAm countries. Additionally, we have continued to see great product updates and new stand-alone products such as our Payment Risk Platform product, which has recently been launched to the entire financial services ecosystem not just in existing Galileo clients as well as Konecta, our natural language AI-driven intelligent digital assistant, which provides faster resolution of customer contacts and reduced contacts per customer for our partners as well as SoFi.

I'll finish here by saying how proud I am of the team's relentless ability to not just persevere through the disruption and volatility of the financial services industry in the first three quarters of the year, but to deliver record results. I could not feel more blessed by our great team's ability to execute and importantly, our more than 7 million members that have been so critical in making our vision of being a one-stop shop for all of your financial needs 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.

Chris Lapointe^ Thanks, Anthony. Overall, we had a great quarter with strong growth trends across the entire business. We achieved record revenue and adjusted EBITDA despite operating in a rapidly evolving macro backdrop with 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 third quarter of 2023 versus third 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 $531 million, up 27% year-over-year and 9% sequentially from the second quarter's record of $489 million. Adjusted EBITDA was $98 million at an 18% margin, also ahead of the prior record quarter at $77 million. This represented over 7 points of year-over-year and nearly 3

points of sequential margin improvement, demonstrating significant operating leverage across all functional expense lines.

In fact, sales and marketing declined as a percentage of adjusted net revenue for the fourth consecutive quarter with marketing intensity 349 basis points lower relative to Q3 '22. Overall, this resulted in a 48% incremental adjusted EBITDA margin year-over-year.

If you look at marketing expense per new member, this quarter saw a 17% decline versus last quarter and a 32% decline versus the year-ago quarter. This is a function of increased monetization of our member base and investments made in all of our operating segments as well as continued improvement in marketing efficiency and success of our Financial Services productivity loop.

Our GAAP net losses were $267 million this quarter. Excluding the onetime impairment expense of $247 million, net losses would have been $19.5 million, which is a $55 million improvement year-over-year. We saw notable year-over-year leverage in stock-based compensation with SBC dropping to 12% of adjusted net revenue versus 19% in the prior year period.

Our incremental GAAP net income margin would have been 48% for the quarter, excluding the onetime goodwill impairment expense. This is a noncash charge that has no impact on tangible book value, which grew by $68 million to $3.3 billion. We remain committed to achieving GAAP net income profitability in Q4 2023. In terms of GAAP EPS, our reported loss of $0.29 in when adjusted to exclude the onetime impairment expense would equate to a loss of $0.03.

Now on to the segment level performance, where we saw a strong year-over-year growth across all three segments. In Lending, third quarter asset net revenue grew 15% year-over-year to $342 million. Results were driven by a 90% year-over-year growth in our net interest income, while non interest income was down 51%. Growth in net interest income was driven by 113% year-over-year increase in average interest-earning assets and a 244 basis point year-over-year increase in average yields, resulting in an average net interest margin of 5.99% for the quarter, which is a 13-basis-point expansion year-over-year and importantly, a 25-basis-point expansion versus Q2 2023.

I'd also highlight our $2.9 billion of deposit growth in the quarter compared to the $2.8 billion of net loan growth on the balance sheet period-over-period. With 219 basis points of cost savings between our deposits and 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.

We expect to maintain very healthy net interest margin as a result of two things: first, the mix of funding will continue to move toward deposit funding, which is currently north of 60%; and second, we will continue to pass on benchmark rate increases for new loan originations.

On the noninterest income side, Q3 originations grew 48% year-over-year to $5.2 billion, and were driven by strong performance from all three products, even as we continued our unrelenting focus on underwriting against our stringent credit standards. We saw record volumes in our personal loans business which grew 38% year-over-year and 4% sequentially to $3.9 billion.

Our student loans business saw origination volume double year-over-year and grew notably on a sequential basis to $919 million ahead of the resumption of payments. Home loans grew by 64% year-over-year and 46% sequentially. And this growth despite continued headwinds from the current rate environment, stems from the early benefits of the integration of Wyndham Capital, which has allowed us to add deep fulfillment expertise into our tech stack and better fulfill member demand.

In the third quarter, we sold portions of our personal loan and home loans portfolio. In terms of in-period sales execution levels, we sold personal loans at an execution level of 105.1% and we sold home loans at a weighted average execution level of 100.2%. In addition, last week, we executed a $100 million sale of personal loans at a 105.1% execution to the same partner who purchased personal loans in Q3, and we agreed to terms with that same partner for a $2 billion forward flow agreement at similar execution levels.

We are also in the market, including in discussions with funds and accounts managed by BlackRock with respect to a $375 million securitization at favorable execution levels, and that is expected to close mid-November. Our personal loan borrowers' weighted average income is $167,000 with a weighted average FICO score of 744. Our student loan borrowers weighted average income is $180,000 with a weighted average FICO of 781.

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 48 basis points in Q3 '23 while our annualized personal loan charge-off rate was 3.44%. Our on-balance sheet 90-day student loan delinquency rate was 14 basis points in Q3 '23, while our annualized student loan charge-off rate was 38 basis points. We continue to expect very healthy performance relative to broader industry levels. The Lending business delivered $204 million of contribution profit at a 60% margin, up from $181 million a year ago, which represented a 61% margin.

Shifting to our Tech Platform, where we delivered record net revenue of $90 million in the quarter, up 6% year-over-year and 3% sequentially. Annual revenue growth was driven primarily by Galileo account growth to $137 million in total. The segment delivered a contribution profit of $32 million, representing a 36% margin, up significantly quarter-over-quarter as we leverage investments made to integrate Galileo and Technisys and to position the segment for higher rates of diversified durable growth going forward. We expect the Technology Platform segment revenue to see an acceleration in Q4 with ongoing strong margins as we leverage prior investments.

Moving on to Financial Services, where net revenue of $118 million increased 142% year-over-year, with new all-time high revenue for SoFi Money and Invest and continued strong contributions from SoFi Credit Card and lending as a service. Overall monetization continues to improve, with annualized revenue per product of $53, up 61% year-over-year versus $33 in Q3 '22, and up nearly 8% sequentially, driven by higher deposits and member spending levels in SoFi Money, greater AUM and monetizable features in SoFi Invest and stability within SoFi Credit Card spend.

We reached 8.9 million Financial Services products in the quarter, which is up 50% year-over-year, and we saw record product adds, with 957,000 new products in the segment. We hit nearly 3.1 million products in SoFi Money, 2.5 million in SoFi Invest and 3 million in Relay. For the first time, this segment reached positive contribution profit at $3.3 million for the quarter, and we continue to expect positive contribution in the segment in Q4 '23 and beyond. This is while we continue to invest aggressively against ample opportunities to rapidly grow this operating segment with attractive returns.

Switching to our balance sheet, where we remain very well capitalized with ample cash and liquidity. Now more than ever SoFi Bank 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 Q3, assets grew by $2.4 billion as a result of strong growth in both student and personal loans. On the liability side of the balance sheet, we continued strong growth in deposits, reaching $15.7 billion, up $2.9 billion sequentially versus $2.7 million in the prior quarter and $2.7 billion in Q1.

Important to note that deposit growth outpaced loan growth for the third consecutive quarter, resulting in more efficient funding costs and a lower reliance on warehouse lines as we ramp the portion of loans that are funded by deposits versus other sources of capital. Because of this, we exited the quarter with $4 billion drawn on our $8.4 billion of warehouse facilities. This further highlights our strong liquidity position particularly in this market.

In terms of our regulatory capital ratios, our total capital ratio of 14.5% as of the end of the quarter remains comfortably above the regulatory minimum of 10.5%. 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.

For the full year of 2023, we now expect to deliver revenue of $2.045 billion to $2.065 billion, above our prior guidance of $1.974 billion to $2.034 billion and full year 2023 EBITDA of $386 million to $396 million, above our prior guidance of $333 million to $343 million.

For the full year, this represents 33% to 34% adjusted net revenue growth, 19% adjusted EBITDA margin and a 48% incremental adjusted EBITDA margin, meaning we expect to drop 48% of all incremental revenue to the bottom line, despite growing at more than 30%. In terms

of depreciation and amortization and stock-based compensation expense, we expect mid- to high single-digit percentage increases in the fourth quarter relative to the third quarter results.

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

QUESTION & ANSWER:

Operator^ (Operator Instructions) Our first question today comes from Andrew Jeffrey of Truist.

Andrew Jeffrey^ I wanted to ask about the decision to sell some personal loans, sort of how you arrive at the decision as to which loans you sell. And you've got great execution in the quarter. Could you compare that to the marks or the assumptions for those loans that you continue to hold on the balance sheet?

Chris Lapointe^ Yes, sure. Thanks for the question. So what I would say here is that we've really built a nice high-quality balance sheet that's generating net interest income that's nearly 2x the costs of our directly attributable expenses to that segment now despite cutting credit and driving up quality of our loans, we are still and will continue to see a lot more opportunity to originate more high-quality loans. So selling at these attractive prices at the 105.1%, that I mentioned, plus having the opportunity to originate more is optimal at this point.

In terms of how the execution compares to where the loans are marked on the book, we sold that 105.1%, and the book is marked at 104.0%, which is down 10 basis points quarter-over-quarter despite the weighted average coupon on the overall portfolio increasing.

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

John Hecht^ I'm just wondering, you've got a resumption of growth in student lending demand, you're still growing the other products, too. I'm kind of -- I'm wondering, how do we think about kind of mix at the bank and the NIM at the bank over the next few quarters as the -- particularly as the student lending reverses to normal demand sequences?

Anthony Noto^ Yes, it's definitely going to play in our favor. The way I think about it is we have a pretty good hand in how we allocate capital. And we're going to allocate the capital based on what's going to give us the best balanced returns. As Chris mentioned, we've grown the balance sheet really well over the last 2 years since having the bank, it's generating an impressive amount of net interest income. It's more than covering our cost there.

In the quarter, you saw that we drove 67% of our growth in absolute dollars from nonlending, from the Tech Platform and from Financial Services. I think you should expect that type of trend to continue in that it's balanced or skewed more towards nonlending.

As we think about our balance sheet and we think about the student loan business in particular, what I'd say is we saw exactly the trend that we expected in student loans in the quarter, which was a slight bump relative to where we've been in the past. We don't expect to see a step function change in student loan originations for a couple of reasons.

One, I think student loan borrowers -- federal student loan borrowers are refinancing for the two reasons we mentioned, one is savings specifically in cost relative to their current rate and getting a lower rate, and then others that are looking to lower their monthly payment, some of which are doing that at actually a higher rate than they are today. And so we think that will be a slow, steady climb as people hit each month of having to pay their bill.

The second factors are decisions. We're going to be very prudent in how we allocate capital to maximize returns. And now that we have 4 effective loan platforms to allocate that capital to, it will really be driven by the opportunity, before being home loans, in school loans, in school student loans, student loan refinancing and then personal loans.

The other thing I would just mention is that we did see an acceleration in growth in the Technology Platform. The pipeline there is pretty visible and it's the most robust that I've seen. It will take quarters to answer RFPs, not months and to integrate partners. But we made the transition of that business over a year ago, and we'll start to anniversary, the tougher comps in Q4, and we'll see an acceleration in that business as well.

So really strong prospects in Tech Platform, great trends in Financial services. So think about SLR and PL being additive to growth, not the driver of growth as we go into '24.

Chris Lapointe^ And then the only other thing I would add, John, in terms of the actual NIM margins specifically, we are expecting those to remain very healthy throughout the remainder of the year, but we are taking a bit of a conservative approach, and that's what's currently embedded in our guidance. The reason for that is obviously as a result of increases in cost of funds and various pricing strategies as well as a mix shift into student loan refinancing.

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

Dan Dolev^ Terrific results. Really, really strong. I just have one question. We're at the end of October now. Can you maybe talk about overall trends, consumer health, everything you're seeing into the fourth quarter?

There's obviously a lot of debate out there in terms of the overall health of the consumer. I'm sure you're seeing a lot of it, so I would appreciate some comments on that in your business.

Anthony Noto^ Sure. First, I'd like to caveat on my comments with the fact that we are relatively unique and that we're a secular grower, not a cyclical grower at this point. Yes. There are cycles in some of our businesses, but the vast majority of our growth is us taking market

share from existing incumbents as opposed to an indication of the economy or the economic cycle, so secular growth to driving force.

That said, we continue to see really strong demand for our products and really strong consumer trends. And SoFi Money, we're seeing balances increase on a per-account basis, not just new accounts adding to our deposits. We're also seeing increased spending on a per-account basis, not just because we're adding new accounts. And so those are two positive underlying trends.

We've also seen the quality of our deposits remain strong. 90% of our deposits are from direct deposit customers and 98% are insured deposits, which means they're not just high quality, but they're diversified. In addition to that, our Invest business continues to benefit from the growth of our member base overall and cross buying, and we see nice trends there from an assets-under-management standpoint.

As it relates to loans, we're seeing unprecedented demand for unsecured personal loans. And obviously we saw an uptick in student loan refinancing. I think the student loan refinancing trend will -- that we report will be more driven by what we decide to underwrite than the actual demand. And I think you can say the same for our personal loans which has been the case for the last 2 years. We continue to reduce the credits that we're willing to improve, and we're seeing continued strong demand even in higher credits and higher quality.

And so Chris, would you add anything to that?

Chris Lapointe^ No.

Anthony Noto^ Thank you, Dan.

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

Mihir Bhatia^ I wanted to ask about the Technology segment. We saw a nice uptick in the contribution margin there this quarter. And I wanted to ask a couple of questions there. Just wanted to get some more details. A is like in the -- what drove the uptick in Galileo accounts this quarter?

And then on the contribution margin side, is a big investment period in that segment done at this point? Like what -- where should you expect segments to trend? And as you grow internationally, is there a difference in the revenue or margin profile between a U.S. account or a Latin American account that we should be just keeping in mind as we think about modeling this business out over the next few years?

Anthony Noto^ Thank you for your question. And I'll talk about the overall trends in terms of demand and account growth, and Chris will talk about the leverage that we're getting there and where we are in an investment cycle, which we've talked about in the last couple of years.

The demand within the Technology Platform is as robust as we've seen. Strategically, we pivoted away about a year, 1.5 years ago from signing up a high number of accounts each quarter that would have a low volume to focusing on larger customers that were more durable and that could not just survive in the financial -- economic cycle, but that also could be durable through the lack of financing in the private market.

In addition to focusing on larger customers that are more durable, we started to build out other verticals such as the B2B channel with the products that we have, they serve both B2C companies and B2B companies. In addition to that, we focused on nonfinancial institutions that have large customer bases and financial institutions that do have large customer bases as well but get to time to revenue much faster.

We'll start to see the benefits of that slowly, gradually hit the revenue number over the next 18 to 24 months. It won't be a step function. I don't want to mislead anybody there, but it will be a nice, steady climb on a nice steady slope.

The results of our strategic switch are really paying dividends. And right now, we're in RFP stages with a number of large financial institutions. We've actually won a regional bank deal, that's one component of a larger piece of their business that will come on over the next 18 to 24 months. But the pipeline is very strong in both financial institutions, incumbent banks and nonfinancial institutions as well as B2B. And so the growth prospects that we're expecting there really started to come through in a much bigger way as many institutions are under pressure to upgrade their technology and to go after new growth opportunities.

I'll let Chris talk about the expenses.

Chris Lapointe^ Yes. In terms of the declining attributable costs as well as the margin expansion that we saw at 36%, this is part in due to realizing the benefits of early investments that we've made in these businesses to push technological and product development and to integrate the two platforms. In addition, Q2 was elevated as a result of a few onetime items, including FX and country-related taxes. And then in Q3, we benefited from lower comp and benefits as a result of maxing out on payroll taxes for the year and a few other onetime items.

As far as the margin profile looking ahead, you can expect continued strong margin performance as we've already made so many investments to integrate the two businesses and positioned the combined entity to leverage demand from a broader mix of clients with more durable revenue streams. Overall, we're expecting margins to be in the upper 20s to 30% in the near term.

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

Kevin Barker^ I just wanted to follow up on some of the movements on the balance sheet, particularly the loan sales. We saw capital ratios come down a bit, but it seems like this $2 billion forward flow agreement will release some of that. And also tangible equity grew $68 million. Just given these factors, where do you expect capital ratios to drift over the next couple

of quarters, particularly if we start to see a larger amount of loans come off the balance sheet due to forward flow agreements?

Chris Lapointe^ Kevin, so our total capital ratio, you'll see in the disclosures is 14.5%, that's 400 basis points above our 10.5% regulatory minimum. We aren't currently providing a specific outlook in that ratio, but what I would say is that there are a number of tailwinds that will help bolster our capital ratios.

First, we have a growing book value -- we've been growing book value for the last 5 quarters in a row and expect to sustain going forward, particularly as we reach GAAP profitability in Q4. As you mentioned, $68 million of tangible book value growth this past quarter and $171 million over the course of the last 12 months.

Second, we have a robust demand and pipeline of loan buyers, that's solid execution levels. As I mentioned in my prepared remarks, we are selling $475 million in Q4 at a favorable execution. And we have a $2 billion forward flow lined up at favorable execution.

And then third, the size of our loan book and the relatively short duration of personal loans, in particular, the amortization on a quarterly basis is quite material now. Between our personal loans business and the student loan refinancing business in quarter three, amortization or paydowns was $2 billion or $8 billion on an annualized basis. So those three factors combined are going to enable us to continue to originate high-quality loans while maintaining healthy capital ratios.

Anthony Noto^ The only other thing I'd add, Kevin, is in the call, I mentioned the fact that some of our financial services business are still in an aggressive mode of investing, and they haven't rescaled yet the way the Money business has as some of our other businesses within the Financial Services segment. I mentioned that on an annualized basis, we're losing well over $100 million in a couple of those businesses. That's a discretionary expense that we could decide to be more conservative on and drive to profitability faster.

The scale that we have in our member base now at over 7 million members really gives us a significant opportunity just to market to our own members in a bigger way to help them get their money right with additional products and services that meet their needs based on the data that we have, and I can't underscore that enough. So that more than $100 million in losses from just two businesses annualized is also an opportunity if we need to go down that path as well.

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

Ashwin Shirvaikar^ Congratulations on the quarter. I want to ask about member growth. And this is, I think the first time in a very long time that we've seen a reacceleration in member growth, wanted to get down into what's driving that. Was that driven by particular member product combinations? Should we expect the sustenance of maybe a slightly higher level of member growth now?

Any commentary there?

Anthony Noto^ We had a really strong quarter in member growth as well as product growth. We exceeded -- we set a record in member growth at over 700,000 and a record in product growth with more than 1 million for the first time. I mentioned on last quarter's call that we're starting to see and we're continuing to see this quarter, the compounding effects of everything working together across marketing and product as well as the experience and satisfaction, word of mouth. We've been focused on driving unaided brand awareness because it makes the rest of our marketing more efficient, as that goes up, our performance marketing has better performance and it's much more efficient.

The second thing is as you scale your data and information, you're hopeful that you can increase marketing and maintain those levels of efficiency. And I'd say that's been the biggest shift this year, is that our marketing efficiencies have maintained as we spent more money but clearly, we're spending more dollars, but we're getting greater yield from what we're spending, and that's also a factor.

But the team has just done a great job of allocating 25% of our marketing to brand building, which drives our native brand awareness and efficiently spending the other 75% against performance marketing. And then cross-buying continues to be very positive, reinforcing our overall one-stop shop mentality.

In terms of the outlook for member growth and product growth, what I'd say is we have largely been averaging in the 400,000 range for members. I wouldn't start assuming we're going to average over 600,000 or 700,000 today. I think you could start to focus on 500,000-plus members in a quarter and keep it with a 5 handle on it, and we'll see how the quarter goes and how we're doing overall.

We've really been focused on driving to profitability. And as we go into 2024, we haven't set our plans yet. So I wouldn't set this at a new level. It was an extraordinary quarter. Can we repeat this quarter?

Yes, but I wouldn't plan on it. So I keep the outlook for members in the 500,000 range for now.

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

Jeffrey Adelson^ So I think just looking at the guidance for the full year, it looks like 4Q '23, you're -- it looks like you're looking for something like a 28% to 32% revenue growth exit rate for the year. Just thinking through next year, I know it's early still, but if rates stay where they are at these elevated levels, is that a good number to be thinking about for next year? Or is there any reason it shouldn't stay where it is?

And how should we be thinking about the different revenue components? Should we be seeing continued strength in the NII, a little bit less in the fee income, maybe a little more in Tech Platform?

And then, Chris, if I could just ask really quick on the $100 million of loans, I think you said you sold at 105.1%. Is that an unhedged or hedged number? And could you just maybe speak quickly to what those loans were? Were they more seasoned or more new originations?

Anthony Noto^ Thanks for the question. The first thing I'd say is the opportunity we have to drive growth is significant. We can drive compounding growth for years, given how large these markets are and our low level of market share. What we choose to grow in 2024 will be a function of the environment as we get through the fourth quarter and where things sit in January.

So we've taken an approach that we give full year guidance at the beginning of the year after we report Q4, so we'll do that again and then we'll update you each quarter. So I don't want to dig into the details of 2024 because there's a lot left to be decided in '23 as well as in January.

Clearly, the Fed has some tough decisions to make, and that could impact the year, so I don't want to make any assumptions on where rates are, especially using -- where they're flat versus where they could be up 25 or even 50 basis points as we start the new year. But suffice to say the growth opportunities that are in front of us are quite significant, and we can use a lot of different levers that drive that growth.

The one thing I will say as we look into 2024, to reiterate what I said earlier, 67% of growth in absolute dollars in revenue year-over-year were from nonlending businesses. As you go into 2024, you should assume that personal loans and student loans will be additive to growth, not the drivers of growth. Our Technology Platform business and our Financial Services segment business will be the drivers of growth, and we'll supplement that on the Lending side. In addition to that, we're committed to GAAP profitability in the fourth quarter of 2023 and for the full year 2024. So those are two guideposts to think about.

And then the last I'd say is we're really focused on tangible book value growth on the trailing 12-month basis. In my remarks and then Chris', we talked about driving over $107 million of tangible book value growth, we're just getting started there. So that's another pillar you could think about.

Chris Lapointe^ Yes. And then, Jeff, in terms of your question about the $100 million sale in Q4, that was at 105.1% on an unhedged basis. In terms of the actual pool of loans that we sold, we'll get into more details on loan sales in our next quarterly call, specifically as they relate to Q4. But what I would say is that it's generally reflective of the overall portfolio. This specific pool had slightly higher weighted average coupons than the average, but there are other offsetting inputs as well to it.

So it's a blend, but we don't talk about the specific loan pools that we sell.

Operator^ The next question in the queue comes from Michael Ng of Goldman Sachs.

Michael Ng^ I just have two questions, one for Anthony and one for Chris. First, Anthony, on just sales and marketing efficiency per new member, I wanted to follow up on an earlier question, which was just around that point. Anything you could tell us about -- in terms of like how sales and marketing new members become more efficient? Do you see continuing opportunities to drive efficiency and effectiveness there?

And then for Chris, I wanted to ask about the discount rate changes for personal loans and student loans relative to last quarter. I think the PL discount rate went up by 50 basis points, student loans went up by 40 basis points. Any color there in terms of that increase in the context of how benchmark rates have changed and any other key factors?

Anthony Noto^ On the sales and marketing side, there are many factors that are driving efficiency, but I'm going to just focus on the big macro factor. There are others that are much more detail. Over the long term, as we drive our native brand awareness higher, all rest of the money that we spend will be more efficient. If people know the brand, if they trust the brand and we're a household brand name, the promotions we do will have a higher click-through rate, the conversion that we have to new customers and new products will also have a greater efficiency. And so as we scale the business and scale down in brand awareness, those will be the two macro drivers.

There many other factors in there, types of data and channels and additional technologies like artificial intelligence and other algorithms that we have and for retargeting, et cetera. But the biggest factor is going to be our native brand awareness and the scale that we have.

Chris Lapointe^ And then in terms of the underlying inputs of our marks and the discount rate moves specifically, I'll hit on both PL and SLR and some of the movements there. So in Q3, the fair market value mark on our PL loans decreased from 104.1% to 104.0%. So it was down 10 basis points. That was a function of the discount rate increasing by 50 basis points.

Embedded in that discount rate assumption was that benchmark rates increased 17 basis points, that's a 2-year swap and then spread assumptions widened by about 33 points. And then we had CPRs increasing, and collectively, those were offset by a 20-basis-point increase in the weighted average coupon.

The one thing that's important to note in the personal loans business is that our actual CDR rates realized in Q3 were 3.44% versus an assumed 4.6% embedded in the marks. So that means what we're actually observing in terms of losses are about 116 basis points per year or 175 basis points over the life of the loan below what is actually embedded in the 104.0% mark.

And then within SLR, the fair market value mark of our student loans decreased from 101.9% to 101.4%, that was down 50 basis points. And that was a function of the discount rate increasing

by 40 basis points. Our benchmark rates increased by about 35 basis points and then spread assumptions widened slightly. This was offset by a 30 basis point increase in WACC and prepayment rates ended up decreasing by about 10 basis points.

Operator^ Next in the queue, we have a question from Dominick Gabriele of Oppenheimer.

Dominick Gabriele^ I was just curious about if the environment stays roughly the way it is today for demand for your product, on the origination side in particular, how should we be thinking about the current level of personal loans versus the current level of student loans? And I only ask because given where the quarter went, it feels like you could actually see an acceleration of revenue growth next year. And so I was just curious what -- how you're feeling about the demand for your products and the current level and market penetration rate that you have in these products.

Anthony Noto^ I can appreciate your enthusiasm. And if we wanted to accelerate revenue growth for next year, we absolutely could given how low our market share is in all these different businesses. But under this scenario where you have higher-for-longer, I think we all need to be realistic of what that means for the industry.

The demand for our products and higher-for-longer, as you mentioned, will continue to be robust, and the opportunity for us to capture that will also be very strong. But we can't just think about SoFi, we also have to think about the other market participants. I do think higher-for-longer will absolutely put pressure on other financial companies that unlike SoFi, are not benefiting from growing deposits and that face notable interest rate risk because they either don't hedge or they lack the ability to pass on higher rates the way that we are able to.

And those are two really important points. It allows us to manage our assets and liabilities in real time and to do it at a micro level down to the loan level. Higher-for-longer could put pressure on these other financial companies. And in that environment, we would want to be a lot more conservative and actually see something like personal loans not grow very much at all and student loans grow marginally. And so as we think about higher-for-longer, what we think about is being very balanced, not because of the opportunity in front of us, but because of the turmoil that may happen around us.

As I said earlier, think about personal loans and student loans being additive to growth and the Tech Platform and the Financial Services segments as being the driver of growth. Those are low capital businesses, in fact, nearly capital-free. I've also hit the point of profitability, which allows us to step on the gas to drive even more scale in them.

We haven't talked about it yet on the call, but it was not an easy progress over the last 6 years in which we invested heavily in SoFi Money, SoFi Invest, SoFi Credit Card, SoFi Relay our Lantern product, our app work business, and a number of other businesses that are in that Financial Services segment for it to go from a loss of over $50 million a year ago to a positive

profit on a contribution basis of $3 million this year, gives us license to grow that in a much bigger way because we don't absorb losses the way we were previously.

We're still losing quite a bit of money and invest in credit card given their investment modes but we can really step on the gas on the other products to drive great scale and profitability there. So it's a great option for us to have. But higher-for-longer may not be the center for next year. But if you actually believe that's the scenario, we're going to be conservative. We're still going to have really strong growth, but we'll be very balanced, especially on the origination side.

Operator^ Our final question today comes from Vincent Caintic of Stephens.

Vincent Caintic^ And it's great to hear the positive reiteration of positive GAAP net income in the fourth quarter. Just wondering, when we look forward on that trend, and you've talked about revenues accelerating increased efficiencies in the business, so should we expect the profitability of the business to actually continue to accelerate from here? Or are there investments or something else that you'd like to make in the meantime and how we should anticipate that profitability?

Anthony Noto^ Yes. Obviously in the fourth quarter, we're expecting the profitability to increase since we go from not generating positive GAAP earnings to generating positive GAAP earnings for the first time. We're committed to generating GAAP -- positive GAAP earnings for all of 2024.

We will -- we're still in investment mode, but we have to balance growth versus investment. I would think about the what we talked about earlier this year from an investment standpoint, that will focus on 30% incremental EBITDA margins and 20% incremental GAAP net income margins as a guiding factor in how much will drop to the bottom line versus reinvest in the business.

Obviously this year, we've been well ahead of the 30% incremental EBITDA margin while still maintaining growth. In fact, what I'd say is I can't find another company that's driven the level of consistent growth that we have in revenue as well as our member base and product base while driving such significant improvement in profitability and building a high-quality deposit and funding base and diversifying it, in addition to growing tangible book value by the level that I mentioned.

We'll continue to make sure that we balance growth versus profitability next year, and we're committed to GAAP profitability for the full year in that 30% incremental EBITDA margin and 20% GAAP net income margin at a minimum.

Operator^ Thank you. We have no further questions in the queue.

So I'll turn the call back over to Anthony Noto for any closing remarks.

Anthony Noto^ Thank you for your questions.

I want to end with the following outlook. I remain confident that no company is better positioned than SoFi to be the winner that takes most in the digital transformation of financial services.

Building the technology capabilities to offer our complete suite of financial products all on your mobile phone and to support our scale of over 10 million products and over $2 billion in run rate annual revenue has proven to be a daunting challenge, a daunting challenge not just for the most well-equipped incumbent banks and financial institutions, but also for the most innovative entrepreneurs.

Add to that, the regulatory requirements and sizable financial capital and resources required and it's fair to conclude, SoFi is in a class of one.

I could not be prouder of our SoFi team for getting us to this point and thankful to our more than 7 million members whose lives we impact every day.

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

Operator^ This concludes today's call. Thank you for joining. You may now disconnect your lines.