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SoFi Technologies

Fourth Quarter 2023 Earnings

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

PARTICIPANTS:

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Andrew Jeffrey
Truist; Analyst
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JPMorgan; Analyst
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Goldman Sachs; Analyst
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Stephens; Analyst
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PRESENTATION:

Operator^ Good morning. (Operator Instructions) At this time I would like to welcome everyone to the SoFi Technologies Q4 2023 and Full Year 2023 Earnings Conference Call. (Operator Instructions)

With that, you may begin your conference.

Paulina Gutierrez^ Thank you. And good morning. Welcome to SoFi's Fourth Quarter and Fiscal Year 2023 Earnings Conference Call.

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Joining me today to talk about our results and recent events are Anthony Noto, CEO; and Christopher Lapointe, CFO.

You can find the presentation accompanying our earnings release on the Investor Relations section of our website.

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

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

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

Factors that could cause these results to differ materially are described in today's press release and our subsequent filings made with the SEC, including our upcoming Form 10-K.

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.

2023 was a remarkable year for SoFi. We achieved multiple records and realized many of our aspirations despite seismic geopolitical and macroeconomic events. We demonstrated that we have built a business to thrive in a host of challenging environments, reacting swiftly to change, driving our business forward with standout financial performance, while continuing to serve our members' needs. Our 2023 results have reinforced my conviction in our long-term potential and our ability to achieve our aspiration to become a top 10 financial institution.

I'd like to highlight some of our notable achievements for the year. We reached GAAP net income profitability in the fourth quarter and are positioned to continue to drive positive GAAP net income in 2024. We grew adjusted net revenue by 35% for the year to a record of $2.1 billion, while adjusted EBITDA of $432 million increased 200% versus 2022. This represents a 54% incremental margin and a 21% consolidated EBITDA margin for the full year compared to our long-term margin target of 30%, which we achieved in the fourth quarter of 2023.

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Total members and products both grew over 40%, with 2.3 million new members in 2023, for a total of 7.5 million members, and we added 3.2 million new products for a total of 11 million products at year-end. We continue to diversify our revenue with financial services and the tech platform contributing 40% of fourth quarter adjusted net revenue, up from 34% in the year ago quarter.

Our Financial Services segment achieved positive contribution profit in the third quarter, which ramped further in the fourth quarter. We completed a dramatic shift in Tech Platforms product offering and focus, positioning us to capture the massive opportunity in the traditional banking sector in addition to tech and consumer companies looking to provide financial services.

In Lending, 72% of adjusted net revenue was from net interest income compared to 48% in fiscal year '22. Net interest income offers a more recurring and predictable cash revenue stream compared to noninterest income. We generated $334 million in tangible book value growth, which is now set to accelerate in 2024. Total deposits grew by $11.3 billion in 2023 to $18.6 billion and over 90% of our consumer deposits are from direct deposit members.

SoFi Bank reported net income of nearly $350 million, a 21% margin with a return on tangible equity of 15.9% in its first full year of formation. To put some of these achievements in the context of a longer-term perspective, I'll note the following. When comparing our business to fiscal year 2018, which is when I joined SoFi and we embarked on our new strategy, we have grown annual adjusted net revenue by more than 8x. Annual EBITDA by almost 3x or $660 million, members by more than 11x, total products by 16x and consolidated net interest income by nearly 5x. And since adding several financial services products in 2019, we have grown annual financial services revenue to more than $430 million, financial services products to 9.5 million in total and Financial Services products now comprise 85% of our total products.

The fourth quarter really capped an exceptional year. Record adjusted net revenue of $594 million accelerated to 34% year-over-year growth, while record adjusted EBITDA of $181 million grew 159% with a 30% consolidated EBITDA margin. This EBITDA margin is up 14 percentage points year-over-year and is now equal to our long-term target of 30%.

Financial Services segment contribution profit grew to $25 million, an 18% margin versus $3.3 million last quarter and negative $44 million in the year ago quarter. Our deposits grew by a record of nearly $3 billion in the quarter.

Tech Platform segment revenue growth accelerated to 13% year-over-year on its way to 20% next year with a 32% contribution margin versus 20% in the year ago quarter.

In Lending, 76% of adjusted net revenue was net interest income, up 43% year-over-year to $263 million. We point this out because $263 million in cash revenue is 2x greater than our directly attributable segment expenses of $120 million. Segment contribution margin improved by over 500 basis points sequentially to 65%.

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Company consolidated GAAP earnings per share was $0.02, with GAAP net income totaling $48 million versus a $40 million loss in the year ago quarter.

SoFi Bank's net income of $129 million represents a 27% margin and an annualized return on equity of 16.8%.

In terms of our balance sheet, we grew tangible book value for the sixth consecutive quarter by $204 million at the consolidated level, reaching $3.5 billion in total. Our total capital ratio improved to 15.3% from 14.5% last quarter, helped by organic tangible book growth, over $1 billion of loan sales, capital optimization moves and an opportunistic convertible debt repurchase of $72 million.

From a member and product perspective, in the fourth quarter, we added 585,000 new members for a total of over 7.5 million members, and 695,000 new products for a total of over 11 million products.

Now I'd like to spend some time touching on quarterly segment level results. Lending adjusted net revenue of $347 million grew 10% year-over-year against a difficult comparison of 51% year-over-year growth in the year ago quarter. Personal loan originations grew 31% year-over-year to $3.2 billion. Student loan originations grew 95% year-over-year to $790 million and home loan originations increased 193% year-over-year to $309 million.

Within the Financial Services, net revenue grew 115% year-over-year and 18% sequentially to $139 million, driven by continued strong monetization within the segment. We achieved $25 million in contribution profit despite our significant investment across money, credit card and invest. As we noted last quarter, the credit card and invest businesses are still in heavy investment mode with losses of over $100 million annually on a run rate basis. Through unit economic optimization, and greater scale, these businesses will eventually see positive contribution profit, similar to how we deliver with SoFi Money.

We continue to see strong growth in SoFi Money products, and importantly, 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 54% year-over-year or by nearly 1.2 million to 3.4 million accounts. As important is the quality of these members with a median FICO of 744 for our direct deposit portfolio, and hence, we see ample opportunity for cross-buy.

In terms of engagement, over 50% of our newly funded SoFi Money accounts are setting up direct deposit by day 30. This account primacy drives spending, which exceeded $1.5 billion in the fourth quarter, debit transactions of volume. This is up nearly 3x year-over-year and represents more than $6 billion of annualized debit transaction volume. Our invest products, excluding crypto from all periods, grew 20% year-over-year to a total of $2.1 million with AUM increasing 54% year-over-year.

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We've continued to launch exciting new products that meet our members' needs in Financial Services to further accelerate new member growth and cross-buy. Just today for instance, we announced the launch of alternative investments and mutual funds. With the launch of Alts, SoFi is granting yet another opportunity for everyday investors to access investment opportunities, traditionally reserved for institutional investors and the ultra wealthy.

For our Tech Platform, revenue of $97 million accelerated to 13% growth year-over-year, up from 6% in Q3. We continue to make significant strides in our strategy of leveraging our unique product suite to pursue diversified growth and larger, more durable revenue opportunities. We started to see evidence of this strategy in the fourth quarter as growth was driven not just by continued strong organic growth of existing partners and new product adoption by them, but also by notable contributions from increasingly diversified clients, which have launched within the last six months.

As mentioned last quarter, demand from traditional financial institutions and nonfinancial categories remains strong.

While lead times for winning RFPs and ensuing integrations are 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.

On the product side, we continue to build and ship a diverse range of products for multiple sectors. Most notably, we launched an expense management solution in partnership with Mastercard that provides clients in the B2B sector with insights into corporate card spend. We launched same-day ACH, which allows account holders faster access to funds and helps mitigate risk tied to transactional delays. And we launched a risk data mart and data pipeline for our Payments Risk platform, which is seeing rapid adoption from existing clients.

With that, let me turn it over to Chris for a review of the financials for the quarter and our 2024 outlook. I'll return to review our multiyear outlook after Chris shares his thoughts.

Chris Lapointe^ Thanks, Anthony. The Q4 and full year 2023 results really proved once again that our diversified and differentiated business model drives SoFi's durability and long-term growth potential. I'm going to walk through key financial highlights and our financial outlook. Unless otherwise stated, I'll be referring to adjusted results for the fourth quarter and full year of 2023 versus fourth quarter and full year of 2022. Our GAAP consolidated income statement and all reconciliations can be found in today's earnings release and the subsequent 10-K filing, which will be made available next month.

For the quarter, we delivered record adjusted net revenue of $594 million with growth accelerating to 34% year-over-year and 12% sequentially from the third quarter's record of $531 million. Adjusted EBITDA was $181 million at a 30% margin, which is our long-term target margin, up over 80% from the prior record quarter of $98 million. This represented over 14 percentage points of year-over-year margin improvement and 12 percentage 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 fifth consecutive quarter.

Total operating expenses declined roughly 17 points as a percentage of adjusted net revenue year-over-year. Overall, this resulted in a 74% incremental adjusted EBITDA margin year-over-year. We achieved GAAP profitability this quarter for the first time with GAAP net income reaching $48 million, an $88 million improvement year-over-year and an incremental margin of 55%. We saw continued year-over-year leverage in stock-based compensation dropping to 12% of adjusted net revenue versus 16% in the prior year period on our path to our longer-term goal of single-digit stock-based compensation margins.

For the full year, we delivered $2.1 billion of adjusted net revenue, up 35% year-over-year from $1.5 billion in 2022. Adjusted EBITDA rose 201% year-over-year to $432 million at a 21% adjusted EBITDA margin. Our full year net loss was $54 million and $0.10 per share, excluding the goodwill impairment charge taken in Q3. We exceeded the high end of our most recent revenue and EBITDA guidance by $9 million and $36 million, respectively, by leveraging our unique suite of products and services, nimble asset and resource allocation, as well as a relentless focus on unit economics and risk management.

Now on to the segment level performance. In Lending, fourth quarter adjusted net revenue grew 10% year-over-year to $347 million with $226 million of contribution profit at a 65% margin, up from $209 million a year ago. These results were driven by 43% year-over-year growth in our net interest income while noninterest income was down by 36%, primarily driven by increased losses and prepayments. Growth in net interest income was driven by an 82% year-over-year increase in average interest-earning assets and 122 basis point year-over-year increase in average yields. This resulted in an average net interest margin of 6.02% for the quarter, up 3 basis points sequentially and 8 basis points year-over-year.

I'd also highlight our $2.9 billion of deposit growth in the quarter compared to the $1.6 billion of net loan growth on the balance sheet. The 218 basis points of cost savings between our deposits and our warehouse facilities has resulted in a meaningful benefit to our net interest margin.

It also underscores the benefits of having the option of holding loans on balance sheet when advantageous and collecting net interest income. We expect to maintain a healthy net interest margin and benefit from the continued mix toward deposit funding, along with our demonstrated high loan WAC betas.

On the noninterest income side, Q4 originations grew 45% year-over-year to $4.3 billion and were driven by growth across all three products, even as we continue tightening and underwriting against our stringent credit standards. We saw typical seasonality and intentionally planned for lower originations in our Personal Loans business with originations of $3.2 billion, up 31% year-over-year and down 17% sequentially.

Our Student Loans business saw origination volume nearly doubled year-over-year and declined 14% sequentially to $790 million.

Home Loans grew by 193% year-over-year and declined 13% sequentially to $309 million.

Our Personal Loan borrowers weighted average income is $171,000 with a weighted average FICO score of 744.

Our Student Loan borrowers weighted average income is $154,000 with a weighted average FICO of 781.

Our Q4 on-balance sheet delinquency rates and charge-off rates continue as anticipated to normalize back toward pre-Covid levels. Our on-balance sheet 90-day Personal Loan delinquency rate was 56 basis points while our annualized Personal Loan charge-off rate was 4.0%. Our on-balance sheet 90-day Student Loan delinquency rate was 13 basis points, while our annualized Student Loan charge-off rate was 59 basis points.

We continue to expect healthy performance relative to broader industry levels. In the fourth quarter, we sold portions of our Personal Loan and Home Loan portfolios totaling $1.2 billion, approximately $875 million in Personal Loans principal and $350 million in Home Loan principal.

In terms of the Personal Loan sales, we closed a previously disclosed $375 million securitization with BlackRock, where we sold both bonds and the resid at an execution level of 105.1% and closed an additional $500 million of loans in whole loan form to multiple parties at a blended execution of 105.6%. These had similar structures to other recent Personal Loan sales with cash proceeds at par or at a premium to par and the majority of the premium comprised of the contractual servicing fees that are capitalized. These deals included a small loss share provision that is above our base assumption of losses and immaterial relative to the exposure we would otherwise have had if we held the loans.

In the quarter, we executed $450 million of senior secured financing, which will show up on our detailed balance sheet and senior secured loans held for investment at amortized costs. These loans have a fixed term structure and are secured against the underlying assets, therefore, equivalent to investment-grade bonds, if you were to do a securitization for the same pool of collateral. In addition, these loans are priced at market rates, which not only helps to diversify our balance sheet, but also provides an additional return above our cost of funding and a yield similar to the net interest margin of our loans, which are unsecured.

Now turning to our fair value marks and key assumptions. Our Personal Loans are marked at 104.9% as of the year-end, up from 104.0% at the end of Q3. This was a function of the discount rate decreasing by 103 basis points, which was driven by the underlying benchmark rate declining by 90 basis points and spreads tightening by 13 basis points. Notably, the benchmark

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

Partially offsetting the decrease in discount rate was an increase in the annual default rate assumption from 4.6% to 4.8% as well as an increase in the annual prepayment speed assumptions from 20% to 23%, which has an immaterial impact on the overall change in the mark.

When a borrower prepays, we are still capturing the principal and the impact of the value of the assets is only based on the premium above par at a given point in time, which is very small relative to the principal outstanding. We expect default rates to continue to normalize to pre-Covid life of loan loss levels of approximately 7% to 8%.

For our Student Loan portfolio, the fair value mark at year-end increased to 103.8% versus 101.5% at the end of Q3. This was a function of the portfolio WAC increasing by 24 basis points and the discount rate decreasing by 57 basis points, driven by the underlying benchmark rate declining by 86 basis points and spreads widening by 29 basis points. Partially offsetting the decrease in discount rate was an increase in the annual default rate assumption from 0.5% to 0.6%.

Importantly, the fair value benefits resulting from interest rate decreases as well as Personal Loan spread tightening was offset nearly 1 for 1 by hedge losses and spread widening in our SLR business. So there was no net revenue benefit in the quarter due to discount rate input changes.

For the full year, Lending adjusted net revenue grew 21% to $1.3 billion and the segment delivered $823 million of contribution profit at a 62% margin.

Moving on to Financial Services, where net revenue of $139 million increased 115% year-over-year with new all-time high revenue for SoFi Money, credit card and lending as a service as well as continued contributions from SoFi Invest. Overall monetization continues to improve with annualized revenue per product of $59, up nearly 50% year-over-year versus $40 in Q4 2022 and up 10% sequentially. This is driven by higher deposits and members spending levels in SoFi Money, greater AUM and monetizable features in SoFi Invest and robust growth within SoFi Credit Card spend.

We reached 9.5 million Financial Services products in the quarter, which is up 45% year-over-year with 626,000 new products in the quarter. We reached nearly 3.4 million products in SoFi Money, 2.4 million in SoFi Invest and 3.3 million in Relay. Contribution profit reached $25 million for the quarter, even as we continue to invest aggressively against the ample opportunities to rapidly grow this operating segment with attractive returns. Full year segment revenue of $437 million is 2.6x the $168 million we delivered in 2022, and we broke even on a contribution basis for the full year.

Shifting to our Tech Platform, where we delivered record net revenue of $97 million in the quarter, up 13% year-over-year and 8% sequentially. Annual revenue growth was driven by continued monetization of existing clients, along with new deals signed in new client segments. Galileo accounts grew 11% year-over-year to $145 million. The segment delivered a contribution profit of $31 million, representing a 32% margin. We continue to leverage investments made to integrate Galileo and Technisys and position the segment for higher rates of diversified durable growth going forward.

We expect Tech Platform revenue to continue accelerating in 2024 with strong margins. For the full year, the Tech Platform segment grew revenue 12% to $352 million and delivered $95 million of contribution profit at a 27% margin.

Switching to our balance sheet, where we remain very well capitalized with ample cash and liquidity. In Q4, assets grew by $2.1 billion as a result of $1.6 billion growth in loans and approximately $400 million of growth in cash, cash equivalents and investment securities. On the liability side, deposits grew by $2.9 billion sequentially to $18.6 billion. Importantly, deposit growth outpaced net loan growth for the fourth consecutive quarter. As a result, we were able to reduce warehouse facilities utilized by over $700 million, resulting in more efficient funding costs as we continue to ramp the portion of loans that are funded by deposits.

We exited the quarter with $3.2 billion drawn on our $9 billion of warehouse facilities. We grew tangible book value for the sixth consecutive quarter by $204 million to nearly $3.5 billion. In the fourth quarter, we opportunistically executed the buyback of a small portion of our outstanding convertible bonds, which was additive to our GAAP net income by $14.6 million accretive to GAAP EPS and additive to our total risk-based capital ratio by more than 30 basis points.

Additionally, we entered into a credit default swap arrangement for $2.5 billion of refinanced student loans. These loans were reclassified as held for investment versus held for sale based on the fact that we intend to hold these loans until maturity, given the more attractive returns relative to pricing trends we see in the market today. We do not expect to see that price dynamic changing. The reclassification is consistent with fair value accounting practices and has no overall impact on our revenue and profitability. The credit default swap, however, does improve capital ratios as it significantly lowers the risk weighting for these assets and increased our total risk-based capital ratios by greater than 1% in the quarter.

In terms of our regulatory capital ratios, our total capital ratio of 15.3% at year-end improved from 14.5% last quarter and remains comfortably above the regulatory minimum of 10.5%.

Let me finish up with our outlook.

Before going through specific numbers, I want to review some of the larger macro assumptions that underpin our financial guide. We assume a contraction in GDP in 2024 and an increase in

unemployment to higher than 5% and broadly a continuation of uncertain capital markets activity and continued normalization of consumer credit.

From an interest rate perspective, we are assuming four rate cuts in response to a contracting economy, higher unemployment and deterioration and normalization and credit performance with Fed funds rate reaching approximately 4.5% by Q4 2024.

Before I summarize 2024 annual guidance, I want to give some high-level thoughts by segment. 2024 will be a transitional year for SoFi as the Tech Platform and Financial Services segments together will drive our growth and increase from 38% of total adjusted net revenue in 2023 to approximately 50% for all of 2024. Specifically, we expect our Tech Platform and Financial Services segments when taken together to grow 50% or more with the Financial Services segment growing approximately 75% year-over-year and Tech Platform growing approximately 20% year-over-year.

We are taking a conservative and pragmatic approach toward our Lending segment revenue, expecting to largely maintain it, given our concerns about the 2024 macro environment as it relates to uncertainty on rates, the economy and industry liquidity. Therefore, we will manage the Lending segment revenue to be 92% to 95% of 2023 Lending revenue. This very conservative view of lending reflects our choice to limit lending growth below both the much higher level of demand we have had and expect to continue to see in 2024 and the capacity that we have.

Fortunately, for us, the scale and profitability we have achieved in our Tech Platform and Financial Services segments allows us to intentionally limit growth of our Lending businesses in periods of uncertainty while still maintaining an attractive overall growth rate, significant profit, cash generation and book value growth. Even with our conservative view of the Lending business, we expect 50% growth in revenue of Tech Platform and Financial Services combined and to add at least 2.3 million new members in 2024, which represents 30% growth.

Within Lending, our Personal Loan originations could be relatively flat or down versus 2023, while Student Loan originations could grow just modestly and Home Loans growth could be correlated with rate decreases.

In terms of capital and liquidity, our total risk-based capital ratio improved to 15.3%, up from 14.5% in Q3, demonstrating our ability to effectively manage our balance sheet and capital ratios through growth in GAAP net income, opportunistic capital efficiency transactions and loan sales.

In terms of our lending capacity, we have the ability to originate $18 billion to $20 billion in loans in 2024 while keeping capital ratios well north of regulatory minimums, and that's based on growth in tangible book value, amortization of existing loans and previously announced loan sales. To be specific, we expect to generate $300 million to $500 million of tangible book value in 2024, which translates to approximately $2.4 billion to $4 billion of incremental capacity.

Second, loans are amortizing or paying down an annual rate of $8.4 billion. Third, we have our previously announced $2 billion forward flow agreement in addition to a number of on-the-run loan sale transactions we expect to execute similar to the sales achieved in Q4. And lastly, we have headroom in our capital ratio. Having said that, we intend to originate less than the $18 billion to $20 billion in capacity, and this is based on the factors I outlined previously.

With that, let me turn to specific guidance. For 2024, even with our conservative view of the Lending business at 92% to 95% of 2023 revenue, we expect 50% growth in revenue of Tech Platform and Financial Services combined and to add at least 2.3 million new members, which represents 30% year-over-year growth.

We anticipate adjusted EBITDA margins of approximately 20% in the first quarter, ramping to our long-term target margin of 30% by year-end, which equates to a range for 2024 EBITDA of $580 million to $590 million. For the full year 2024, we expect expenses under the EBITDA line to be roughly equivalent in aggregate in dollar terms compared to 2023, excluding the 2023 reported goodwill impairment expense. That equates to full year GAAP net income in the range of $95 million to $105 million and GAAP EPS in the range of $0.07 to $0.08. We expect growth in tangible book value of $300 million to $500 million for the year, and to end the year with a total capital ratio north of 14%. For Q1 2024, we expect to deliver adjusted net revenue of $550 million to $560 million, adjusted EBITDA of $110 million to $120 million and GAAP net income in the range of $10 million to $20 million.

Now let me turn it back to Anthony for thoughts on our medium-term outlook.

Anthony Noto^ Given the number of milestones we have achieved since we transitioned the strategy of the company when I joined six years ago as well as the fact that 2024 will be a transitional year, we thought it would be helpful to provide a longer-term perspective beyond 2024.

For the 2023 through 2026 time period, we see 20% to 25% compound annual revenue growth, assuming no meaningful change in the macro environment and no significant new business launches or acquisitions such as small and medium business checking and savings or small medium business lending, a broader asset management business, insurance, a broader credit card portfolio, new technology verticals for the Technology Platform business or new geographies.

The 20% to 25% compound annual revenue growth from 2023 through 2026 assumes a compound annual growth rate of 50% for Financial Services revenue, mid-20s percent for Tech Platform revenue and mid-teens for the Lending segment revenue. Simply put, this growth only reflects the benefits of the investments we've made in our existing businesses paired with continuing to build brand awareness, trust and adoption by new members and driving cross-buy from existing members.

The earnings power associated with this growth is notable and could drive between $0.55 and $0.80 per share in GAAP EPS in 2026. Moreover, we see 20% to 25% EPS growth beyond 2026,

reflecting both the continued growth of the core businesses we've just described, plus the added benefit from new business lines launched in the 2024 to 2026 time period that begins to scale and impact beyond 2026.

Make no mistake, the long-term opportunity for SoFi remains unchanged and we continue to believe we are just getting started. There are endless opportunities for investment and growth, and we remain focused on the right types of durable growth for the stage of our company and within the environment in which we operate.

In summary, we could not be more proud of the results of SoFi in 2023. We're even more encouraged by the prospects ahead of us. We have demonstrated the benefit of having a member-centric approach and being a one-stop shop to help our members get their money right, resulting in having a diversified, high-growth set of revenue streams, multiple cost-efficient sources of capital, a team focused on underwriting high-quality credit and a high degree of operating leverage as we scale the business to be the winner that takes most in the digital financial services sector.

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

QUESTION & ANSWER:

Operator^ Thank you. (Operator Instructions) Our first question today is from John Hecht from Jefferies. John, please go ahead, your line is open.

John Hecht^ Yes, good morning, guys. Thanks very much for all the details about the intermediate-term goals, and I appreciate you taking my questions. You guys are taking a fairly conservative look at the economy. I think that's dictating or guiding kind of how you want to balance the growth between the Lending segment and the Non-lending segments this year.

Anthony, I'm just wondering, if things kind of pan out a little better than expected, would that change the trajectory? And then how do we think about kind of Lending segment versus Nonlending segments as we get into next year?

Anthony Noto^ Yes. I think if the economic backdrop is vastly different, it will change the trajectory, both up and down.

I would think about that in both ways. It could be worse it could be better.

As I think about the different businesses, some things that could give us tailwind. If we do see rate declines, our Home Loan business really would benefit from refinancing in the Mortgage business and would benefit from greater purchases. Where now rates are quite high and it stifled the growth in that market, but that would be a benefit.

We really love the Home Loan business for a couple of reasons. Number one, it's probably the largest and most emotional financial decision people are making their lives. And if we're going to be there for a relationship with our members, we have to be there for that decision. It also is one of the most risky. If someone overpays for a house or takes on too much debt in their mortgage, it could eliminate their ability to have discretionary income to invest in -- if you do that in your 20s and 30s, it's really hard to catch up later.

So it's a really critical product for us delivering on our mission.

It's also a great economic product. We largely do agency mortgages, which means we use our capital just to underwrite it, but then we can sell it the government agency windows, which benefits the balance sheet quite meaningfully. So that's one business that would be capital light, generally, if we do agency mortgages that would benefit from lower rates.

The second business that would benefit from that is as rates come down, you'll see more people looking to get yield in other products like Invest. An offset to rates coming down, some may believe that our SoFi Money product may not grow as fast. What I'd say is from an interest rate standpoint, we are committed to providing a top-tier [API] in addition to no fees and all the functionality that we provide with 2-day early paycheck and the ability to earn reward points and do person-to-person payments and bill pay and all the other benefits of that product.

But because we are an originator and we do generate yield against those deposits, as you know, 6.1% this quarter, we're going to be able to maintain a competitive advantage in what rate we give on SoFi Money.

I would say if the rate cuts are in fact 6x instead of what we're forecasting at 4x, I do worry about the economy. I don't see a world in which we have six rate cuts and we have a strong economic backdrop. The market quickly switched from in late October, going from higher for longer, so six rate cuts in a matter of 90 days, that tells you how bifurcated the market is and how concerning things can switch so quickly. So we want to be conservative in our outlook as it relates to risk.

We have the benefit of being able to be conservative in our outlook because of what we've done in growing the Fungal Services segment and the Technology Platform segment.

And now that the Financial Services segment is profitable on a contribution profit basis, we can grow even faster, and it doesn't drive our losses up. We're still in a significant investment mode there because of the acquisition cost on invest and on credit card and on SoFi Money. But overall, it's profitable, we can grow it very fast and benefit from that high-margin revenue, the margin is increasing.

And [same thing] of the Tech Platform. We invested meaningfully over the last three years in the Tech Platform. We're now in margin expansion mode and revenue acceleration mode. So having

all three businesses, a direct result of our broad-based strategy of giving consumers what they need to get their money right, but also results in more durable and diverse revenue streams.

In the situation where the economy is weaker than expected, losses will go up. We've seen trends across the industry. The all bank data is very telling in charge-off rates and delinquencies as well as reserves for losses that indicate that normalization happen across the spectrum, and we want to be prudent to make sure we factor that into our risk profile.

Next question.

Operator^ Thank you. Our next question today is from Andrew Jeffrey from Truist. Andrew, please go ahead, your line is open.

Andrew Jeffrey^ Hi, good morning. Appreciate you taking the question. Anthony, I wonder if you could talk a little bit about the company's anticipated balance between growth, I'm thinking specifically in the Financial Products segment and profitability. You've achieved at least this quarter, your long-term margin targets and ostensibly, you continue to generate really good LTV to CAC. So are there any factors that limit growth in terms of the Financial Products segment? Or could we actually see that accelerate as the business becomes a little more balanced away from Lending?

Anthony Noto^ Thank you for your question. The contribution margin in that business was breakeven for the full year and improved meaningfully in the fourth quarter.

I would say the major limit on our growth in the Financial Services segment is how much we want to spend on building awareness and marketing. We have really good customer acquisition cost profiles in the businesses, especially SoFi Money, it's got the best payback period.

But we're doing really well in Invest. Investors shouldn't go to sleep on our Invest business. As we mentioned in the call, the AUM increased more than 50%. We launched alternative asset classes today. We continue to give consumers access to products that are typically only available for the wealthy.

And we're bringing them to Main Street. We did that with IPOs and now with alternate investments today which we'll continue to build out also.

And in the Credit Card business, we really hunkered down there and pulled back to make sure we have the credit profile right, our market segmentation right. And most importantly, like we did in Money, make sure we have the unit economics story. And I feel like we've made great progress there. So within that segment, it really comes down to how much we want to spend in driving marketing. The products have payback periods anywhere from 12 months to 36 months.

So ultimately, we want to manage the overall business to a 30% incremental EBITDA margin, and so we'll invest up to that point. And that's how to think about the limits to growth.

But in terms of the opportunity, if we wanted to spend more and not hold ourselves to that balance between growth and a 30% incremental EBITDA margin, we can grow it even faster. The market -- the product market fit is so great. It's just a question of how much you want to dial it up or down.

Operator^ Thank you. Our next question is from Reggie Smith from JPMorgan. Please go ahead, your line is open.

Reggie Smith^ Hey, good morning. Thanks for taking my question. Chris, I think you said that Personal Loan charge-offs were 4%, I believe, for the full year. I was wondering if you could tell us what that was for the fourth quarter. I was -- I guess my math and it could totally be off -- you guys like 3.1% through the first three quarters of the year, and that would imply, I think like a 6% loss rate in the fourth quarter. So I don't know if I'm wrong there, like any color there would be helpful.

Chris Lapointe^ Yes, no worries, Reggie. In terms of the fourth quarter, what you heard in my prepared remarks, was accurate for the fourth quarter. So our NCO rate for the Personal Loans business was 4.0%. That was up from 3.44% in Q3 of 2023. As Anthony had alluded to, we do expect a continued normalization towards pre-Covid levels and life of loan losses in the 7% to 8% range.

Operator^ Thank you. Our next question is from Dan Dolev from Mizuho. Dan, please go ahead, your line is open.

Dan Dolev^ Thank you. Hi. Guys. Excellent quarter. Nice work. Anthony, maybe a question for you.

You provided a nice outlook on profitability into 2026. Can you maybe give us your comfort level on the earnings -- the long-term earnings power of the business? Thank you.

Anthony Noto^ Yes. I think that there's two important indicators for the long-term earnings power of the business, which is what have we done to date, and then what's the sort of incremental way to think about profitability.

So 30% EBITDA margin in the fourth quarter is a huge milestone for us. I cannot tell you the number of people that I mentioned our long-term margin at 30% to that were naysayers there. So I'm really proud of the scale that we've achieved in over $2 billion of revenue, but equally proud of what we've done from a profitability standpoint. To have 35% revenue growth, which accelerated with a 30% actual EBITDA margin and GAAP profitability shows you the earnings potential of this business. The margin could be much higher than 30%, but we're sticking to that as our long-term margin today.

As I think about 2026 in that time period, margin profile in the 30s is what would help us get there and would make it achievable. If you think about our businesses individually and then collectively, as a series of unit economic businesses where we're architecting the revenue per account, variable cost per account to variable profit margin that obviously exceeds the customer acquisition cost by a meaningful margin and then pays back after 12 to 24 months.

As you scale that variable profit per account, you're going in at a fixed cost base. Once you get that above the fixed cost base, the incremental unit economics has dropped to the bottom line. And our unit economics are greater than 30%, which means our long-term margins could be greater than 30%. But we're going to stick with that right now for our long-term margin. It's quite surprisingly [achieving] so early, while we're still growing.

So that should be a great indication of what the future could bring. But we're not going to push it higher than that because we want to make sure we hold ourselves accountable to some constraints on what we invest in, while balancing growth versus profitability and marching towards higher ROE and greater tangible book value growth.

Next question please.

Operator^ Thank you. Our next question is from Jeff Adelson from Morgan Stanley. Jeff, please go ahead, your line is open.

Jeff Adelson^ Hey, thanks guys. I appreciate you taking my question. I just wanted to dig in on -- follow-up on Reggie's question a little bit and digging on the credit on the Personal Loan book. I know you did modestly increase the life of loss expectation there to 4.8% this quarter. I guess when we look at some of the [ABS] data, it does look like the data continues to get worse. And we have other lenders out there in the consumer world that have flagged that losses should also get worse this year.

So I'm wondering if you could help us frame where you have your expectations for 2024 credit and the loss going there. Is there a world where you see that overshooting the kind of 4.8% life of loan expectation this year? Or do you think that it could kind of hold there. And then as a follow-up, I'm wondering if you should also provide the dollar benefit to NII you got this quarter or revenues this quarter from the new secured financing you announced. Thanks.

Chris Lapointe^ Yes, sure. So on the actual [PO losses], I just want to be clear, when I mentioned the 4.0% NCO rate, that was an annual loss rate where we expect it to normalize to is 7% to 8% life of loan, which translates closer to a 4.8% to 5-ish percent annualized loss rate, which we expect to occur in the first half of 2024.

The reason that we get confident that we are going to peak out at those levels is that if you look at our NCOs for Q4 of 2023, about 15% of those net charge-offs are related to credits that we have removed from the system and that comprises about 3% of the overall UPB on the balance sheet. That's expected to get down to less than 1% by the end of the year.

In terms of your second question around the benefit from revenue from secured financing that we announced, we did about $450 million in the quarter, as I alluded to in my prepared remarks. The actual revenue generation associated with that in period was immaterial given time of sales.

Anthony Noto^ And the only other thing I'd add is that our backdrop for credit and credit performance and normalization is tied to our economic outlook. Obviously in a more challenging economic outlook, those assumptions would likely not hold to be true, and we obviously manage the business differently.

I would say the one thing that's been true over the last six years that I've been here is whatever we thought would happen with the economy isn't actually what's happened with the economy, and we have to be nimble and smart and read all the macroeconomic data points and our own business performances to adjust accordingly. So I don't want anyone to think that the outlook that we have is in all economic backdrops, it's not it's for the very specific one that we outlined.

Next question please.

Operator^ Thank you. Our next question is from Michael Ng from Goldman Sachs. Michael, please go ahead.

Michael Ng^ Hey, good morning. Thank you very much for the question. I appreciate all the revenue guidance by segment for 2024. I was just wondering if you could talk a little bit about the contribution profit outlook, key things to consider for each segment? And any specifics around 2024 by segment would be helpful. thank you.

Anthony Noto^ The way I think about it is the [mining] business is meaningfully profitable, very high contribution profit margins there. For those who have been following us for a long time, you'll remember the comments that was made about ensuring that our loans have a 40% to 50% variable profit margin per loan so that those loans will be durable through the cycle, and we remain focused on achieving that.

The second thing I'd say is the Technology Platform, the margins contract there quite meaningfully prior to this year as we invested in moving to the cloud from on-prem and we invested in new architecture and new products and services, and we're now seeing the benefit of those investments coming in higher revenue and more operating leverage, and you saw the nice contribution profit margin expansion there, which you can continue to see with more revenue. It's a business that once you exceed your fixed cost, the incremental profitability is quite meaningful.

And in the Financial Services segment, it's a lot harder to talk homogeneously because there's so many different businesses there. Chris said on the call that we're losing over $100 million a year from a contribution profit standpoint across the different businesses we're investing despite the fact that we achieved $25 million in the quarter of contribution profit, we’re still losing

meaningfully in businesses like Credit Card and SoFi Invest because of the acquisition cost there, but also because the fixed costs are not covered by the variable profit yet. And so that business has a lot of upside in contribution profit.

But you have to think about it by business and where those businesses are in their development cycle. And so Invest and Credit Card are very early in their investment cycle and therefore, losing a lot of money. SoFi Money is now variable profit positive and carrying the weight of the profitability of their overall business. We also have some insight business in there that are high margin that are small dollars that contribute nicely, but they're not the biggest contributor to that area.

Next question.

Operator^ Thank you. Our next question is from Vincent Caintic from Stephens. Vincent, please go ahead, your line is open.

Vincent Caintic^ Hey, good morning. Thank you for taking my questions and I appreciate all the details. Going back to the rate cut expectations, I wanted to focus on sort of your expectations for how that affects loan sales and what your pipeline looks like for loan sales? Should we expect an acceleration on loan sales in 2024, if rates continue to go down? And then on the fair value mark, does the current fair value marks actually reflect the [forward] rate cuts already? Or should we expect this cap rate to decline and therefore increase the fair value market as time goes on? Thank you.

Chris Lapointe^ Yes, sure. In terms of the overall demand for our loans, the demand remains extremely robust. You saw that we did over $1 billion of sales in Q4, $875 million of which came from unsecured personal loan sales with a $375 million securitization and $500 million of sales in whole loan format. We do expect demand to remain robust. We're seeing that already in Q1.

As a reminder, we do have a -- $2 billion forward flow arrangement in 2024 with a party that has bought loans from us over the course of the last few quarters that will stay intact throughout the year. And then we do expect robust demand on other -- on the run loan transactions that we've done akin to what we did in Q4. So overall, really good demand at strong execution levels as demonstrated in my prepared remarks.

In terms of the fair market value marks do these include the four rate cuts already. Our marks are reflective of a point in time. So as of the end of Q4, the marks reflect what the underlying benchmark rate as of December 31.

Anthony Noto^ So they don't reflect the full rate that's going forward. The other thing I'd say is as we think about our durability of our loans, we have continued to reduce our credit box. In late December, we reduced underwriting by eliminating what we call Tier six and 7, which is the higher end of our FICO band. As those who know the company, we underwrite 680 going

higher, and our average is much higher than 680 in the mid-7s, as we talked about earlier. But as we progress through the year, we have reduced our credit box, and we continue to do so.

And in December, we're making a relatively big change on six and seven so that our loans are durable through the cycle, whether we hold them on balance sheet or we sell them.

Chris Lapointe^ And then the only other thing I would add, just to follow on to my point around do the marks include the four rate cuts. As you all know, we hedge interest rate exposure on our loans. So when interest rate drops, the value of the loan increases, but that's offset by hedge losses. Similar to what happened in Q4, we saw a meaningful interest rate reductions, but we also had meaningful hedge losses that offset that.

Operator^ Thank you. Our last question we have time for today is from Dominick Gabriele from Oppenheimer. Dominick, please go ahead, your line is open.

Dominick Gabriele^ Hey, guys. Thanks so much for the question and the color across the call. So maybe, Anthony, you can talk to us or Chris, through the assumptions that lead to your mid-20% revenue growth within the Tech Platform, that would be really helpful, maybe including, if possible, breaking it down by the new client wins, pipeline for deals, customer adds. Anything you can provide? I feel like this target is likely going to be significant importance moving forward. Thanks so much.

Anthony Noto^ Yes. We're not going to get into that level of detail. We're in market in conversations with dozens of potential partners across the spectrum of the diversified customer base. We have with ongoing dialogue with everything from government-related deals for -- support and benefits from the federal government, all the way to new consumer financial services offerings from large established nonfinancial services brands, all the way to big large traditional banks in our country.

The drivers of the business are quite simple. We have an underlying payment processing platform that you should think about generating revenue based on two factors: one, getting paid based on the transactions that occur in that platform, the volume of those transactions and the price for the transactions in addition to the APIs that we provide. Within the Technology Processing platform, we provide APIs for account opening for bill pay for 2-day early paycheck for person-to-person payments for payment risk platform [fraud] capabilities. And so different partners use different APIs and the more they use, the more we get paid, but it also drives the more transactions.

In addition to that, we have other products like Konecta, which is a natural language (inaudible) that uses machine learning. We also have a product called Payment Risk platform, where we're helping people decide instantaneously on the risk of a transaction and whether or not it should be authorized or not. And we get paid for each one of those authorizations.

In addition to that, we have Technisys' Banking Core, which is a much larger decision for any institution used, but think of a core as an operating system. Our Technisys capability we bought for one big reason. We have a lot of products at so far. Those products all have different operating systems. We want them to run on one platform, one operating system and we want that system to be extensible to new product -- that exists today.

In the Financial Services industry, many banks, many financial companies have many cores. In fact, they probably have more cores than products because many of them were aggregated roll-ups of other banks that had different quarters for checking and savings, not to mention that different courses for a product like credit card versus checking and savings or even for loans. And so Technisys enables a company to have one platform running different cores for different products, and it's extensible into different areas.

One example of that is SoFi's Buy Now Pay Later. We launched Buy Now, Pay Later with Galileo and Technisys and SoFi. It was the first product on all three technologies and we did it in a very short period of time, and it's a great product that is easy for the consumer to use and can be authorized right in the application itself. And so that is another driver of the overall revenue streams.

We also do services for digital solutions. We do build front-end for apps in addition to other types of digital services as it relates to the app and product development. So there's no one answer to your question other than more partners, more accounts and more products per account, which drives the revenue from those factors that I just laid out.

That ends our prepared remarks and questions. I just wanted to finalize our comments today by just sharing with you some final thoughts.

I'll finish here by saying how proud I am of our team's relentless ability to not just persevere through the disruption and volatility of the industry throughout the year, but to deliver record results. I couldn't feel more blessed by more than 7.5 million members that have been so critical in making our vision of being a one-stop shop for all your financial needs become such an amazing reality.

The benefits of our strategy resulting in a uniquely diversified business that is unmatched by any digital-only provider in our scale, capability and competitive advantages, not only positions SoFi to be the winner that takes most in the sector of transition of financial services to digital, but also provide greater durability through a market cycle. I'm excited about where we are today and even more excited about where we can go from here.

Thank you for dialing in to our call, and we look forward to talking to you next quarter.

Operator^ Thank you everyone, for joining today's call.

You may now disconnect your lines.

And have a lovely day.