

Upstart Holdings, Inc. (NASDAQ: UPST)
Prepared Remarks: Q4 and Full Year 2024 Earnings Call
Tuesday, February 11, 2025

Sonya Banerjee, Head of IR

Thank you. Welcome to the Upstart earnings call for the fourth quarter and full-year 2024. With me on today's call are: Dave Girouard, our CEO and co-founder, and Sanjay Datta, our CFO.

During today's call we will make forward-looking statements, which include statements about our outlook and business strategy. These statements are based on our expectations and beliefs as of today and are subject to a variety of risks, uncertainties, and assumptions. Actual results may differ materially as a result of various risk factors that have been described in our SEC filings. We assume no obligation to update any forward-looking statements as the result of new information or future events, except as required by law.

Our discussion will include non-GAAP financial measures, which are not a substitute for our GAAP results. Reconciliations of our historical GAAP to non-GAAP results can be found in our earnings materials, which are available on our IR website.

Before I turn the call over to Dave, I'll share the events we are participating in this quarter:

- On February 13th: a retail investor Q&A on Twitter with HenryInvests;
- And on March 3rd: the Citizens JMP Technology Conference.

A replay of both events will be available on our IR website. With that - Dave, over to you.

Dave Girouard, CEO and Co-Founder

Good afternoon, everyone - thank you for joining us today.

2024 was a year of rapid quarter by quarter improvement for Upstart, and the fourth quarter clearly took the cake. Considering the weak environment we faced at the beginning of the year, we couldn't have asked for a stronger finish. In Q4, our business grew dramatically across all our product categories on a sequential basis, delivered Adjusted EBITDA at levels not seen since the first quarter of 2022, and came within a whisker of returning to GAAP profitability.

We'll get to the financial details a bit later, but it's worth summarizing up front: In Q4 overall our origination volume grew 33% and our revenue grew 35%, both on a sequential basis. On a year-over-year basis, this equates to 68% growth in originations and 56% growth in revenue. Originations for each of our new product categories grew at an incredible pace - with both Auto and HELOC growing by about 60% sequentially and our small dollar relief product growing a stunning 115% quarter on quarter. None of this could have happened without insanely great work by Upstarters across the country, and I want to thank each of them for believing in Upstart and achieving more than we thought possible just a year ago.

While we continued to deliver model and product wins to support that growth, we also finally benefited from a macro tailwind, most clearly represented by the decline of the Upstart Macro Index in the latter part of 2024. We never plan our business assuming any future improvements to the macro, but they're certainly appreciated when they come.

Now I'd like to dive in and describe some of the product and model wins that we saw in the fourth quarter.

Product Progress

In our core personal loan product, we continue to deliver model innovations that separate us further from the crowd. Model wins that increase risk separation are the lifeblood of Upstart. They're responsible for much of the improvements you've seen in our business lately - and our pipeline of potential future model wins is robust.

If you recall with Model 18, the most impactful innovation was using the price of the loan - or APR - as an input to the model. This is what's referred to as a "feature" of the model in ML-speak and it led to a giant leap forward in model accuracy. This model delivered much of the momentum we saw in the second half of 2024.

In Q4, we launched Model 19, which introduced a new capability called "payment transition model" or PTM. To explain this a bit, in all prior models, the underwriting model only considered the terminal state and timing of a loan in the training dataset - in other words, the particular month when a loan was charged off or prepaid. PTM enables consideration of intermediate delinquency states that may have preceded the final status of the loan. This means delinquencies that recover to current are suddenly meaningful in the training data and can inform a more accurate model. It also means that our model can properly learn from loans that are delinquent but not charged off directly in the core model.

We're often surprised by the increase in accuracy these types of innovations deliver. But concepts like "APR as a Feature" and "PTM" aren't one-time boosts - they're new model forms entirely. You can think of them as innovation vectors that offer our team many ways to refine and build on their advantages for a long time to come.

In addition to these core model innovations focused on risk separation, we've also invested significantly in achieving consistent model calibration. I want to share some recent thoughts and analysis we've done in this area. As a reminder, calibration measures the gap between the predicted and actual overall level of default. And as we all know, Upstart had several quarterly vintages that underperformed during the time that the government was withdrawing COVID stimulus. It's important to state first that less than 1% of our lending partners' quarterly vintages actually lost principal during even the worst of this period. But of course, any underperformance whatsoever isn't a good thing.

We recently completed a backtest using today's macro-handling tools applied to this period associated with intense macro volatility. We found that, had we had today's tools throughout this time of volatility, we would have avoided 55% of the excess loan defaults observed in that

historical period, and would have returned to full calibration 12 months sooner. This analysis gives us confidence that we're making meaningful strides to improve the resilience of our platform through periods of economic volatility and bodes well for our future.

Auto

Moving onto our newer products, in Q4 we released new underwriting models for both our Auto Refinance and Auto Retail products, resulting in improved conversion rates and contributing to the roughly 60% sequential increase in origination volume that I mentioned earlier.

Auto Refi, in particular, has seen giant improvements in conversion rates - about a 7X improvement across all of 2024. Also the modest reductions in base interest rates have begun to revive the auto refinance opportunity and we hope to take full advantage of it in 2025. We're increasingly focused on auto refinance as an excellent cross-sell opportunity for our millions of prior borrowers.

HELOC

Our HELOC product had a strong Q4, growing by approximately 60% sequentially much like our Auto business. This growth was driven by a combination of conversion improvements, cross-selling and expanding state eligibility.

In Q4 we automated the counteroffer process, much as we did for personal loans years ago. This is an important conversion booster. In December, we launched a machine-learning powered feature that increased instant income verification rates by 34%. We also ramped up our ability to cross-sell HELOCs to prior borrowers.

We finished the year with our HELOC offered in 36 states representing 60% of the US population. We're working hard and hoping to begin originations in our home state of California soon! We also finished 2024 with more than 1000 HELOCs originated and zero defaults, a super strong start for our newest product.

In Q4 we also signed our first HELOC agreement with a lending partner. This is an important milestone for us and a harbinger of great things to come. HELOC offers were already being made on behalf of this partner in January, which is a super fast turnaround on bringing the partner live. And more importantly, this partner's offers improved the best HELOC rates available on Upstart by about 100 basis points, a huge win for borrowers and for Upstart. The demand for HELOCs from our lending partners is substantial because it's very prime and it's a product with which they're both familiar and comfortable. Banks and credit unions also love home owners as customers. So it's quite likely our funding supply for HELOC will exceed our needs for some time to come.

I expect 2025 will be a great year for home lending as a fast growing and emerging business at Upstart. I'm increasingly confident that our HELOC product will have distinct advantages not only in terms of process automation (which is always an Upstart strength) but also in terms of

cost of funding, given our extensive relationships with and business orientation toward banks and credit unions.

Small Dollar Loans

The team developing our small dollar relief loans continued their amazing run, with more than 100% sequential growth in loan volume in Q4. This was driven predominantly by the large reduction in variable cost per loan origination that I referenced earlier in the year. This giant cost improvement allowed us to approve more borrowers for small dollar loans within our target economics. The SDL product has exceptional credit performance, strong gross margins, and accounted for more than 13% of new borrowers on Upstart in the fourth quarter.

As of Model 19, we're beginning to use small-dollar repayment data to help train our core personal loan underwriting model. This has the important effect of expanding the sample set of borrowers on which the model is trained to represent even more Americans. In the near future, we'll be moving to a single underwriting model for both of our unsecured products, which we expect to lead to more efficiency and accuracy for both.

Servicing

Last year I outlined plans to modernize and scale our servicing operations by leveraging data, automation, and personalization to improve borrower outcomes and operational efficiency. In 2024, it became clear that these efforts were paying off.

In Q4, we increased the rate at which a delinquent borrower makes a payment within 14 days of contact by 25% sequentially by personalizing our outreach timing and methods. This demonstrates how personalization helps borrowers stay on track and improves overall portfolio health.

Ongoing investments in automation helped us reduce the people-related cost per current loan by 50% over the course of 2024. At the same time, we've intentionally prioritized direct collections efforts for borrowers at risk of default where they're most impactful. This balanced approach – automating routine servicing while intensifying delinquency management – has helped us reduce roll rates from one-day delinquent to charge-off by 15% year-over-year.

Autopay enrollment continues to rise as well, with more than 93% of new loans now enrolled at origination—the highest level in two years. Overall, portfolio-wide autopay exceeded 80% for the first time, up more than 300 basis points year-over-year.

These improvements reflect our commitment to exceptional customer experiences while driving efficiency and better credit outcomes for both borrowers and lenders. Servicing may not be the flashiest part of lending, but at Upstart, we're turning it into a competitive differentiator that creates value for all stakeholders.

Funding Progress

2024 was an exceptional year for the funding supply in our business - and sets us up well for 2025. We saw increased commitments from our partners in private credit as well as a growing roster of lending partners active on our platform.

In Q4 we upsized commitments with long-standing capital partners, increasing these commitments by a total of \$1.3 billion. We also closed a \$150 million personal loan warehouse facility. These wins underscore the confidence our capital partners have in our platform.

2024 also marked the return of lenders to our platform, with our bank and credit union partners continuing to expand their loan volumes given improved liquidity and confidence in the Upstart platform. Q4 originations with our lending partners grew 30% quarter-over-quarter, and 76% year-over-year.

We also strengthened our balance sheet considerably in the second half of the year - by refinancing convertible debt due in 2026 as well as raising almost \$500M to improve our cash position and liquidity for our anticipated growth in 2025 and beyond.

Priorities for 2025

As we begin the new year, I want to share my priorities for Upstart in 2025:

1. **10X our leadership in AI** - I want to dramatically increase our pace of model innovation this year. This means strengthening the team, improving the infrastructure, streamlining the processes, and accelerating the growth in our proprietary training data. This goal is number one for a reason.
2. **Prepare our funding supply for rapid growth** - We can strengthen our funding partnerships with both investors and lenders by delivering high-quality, reliable loans across all our asset classes. In 2025, I want to take steps toward building the largest yield factory in the world.
3. **Return to GAAP net income profitability in the second half of the year** - We aim (once again) to be the unique company that combines high growth and profits. We're on the verge of doing just that.
4. **Giant leaps toward best rates, best process for all** - We started rapidly down this path in the second half of 2024 and we want to make even bigger strides in 2025. Success in this endeavor will make Upstart invaluable for those who partner with us; and it will present a real challenge for those who choose otherwise.

Conclusion

A few thoughts as I wrap up: one of our very early Upstarters who went on to join Google's DeepMind and then eventually started his own AI venture fund, said something recently that

stuck with me: “Upstart is building the foundation model for credit. Nobody else is even trying.” This is a simple yet elegant description of Upstart - in fact, I wish I had said it! But if you’re a believer in the transformational power of AI, it’s undeniable that the trillions of dollars of credit origination each year represent a clear and obvious opportunity for AI to improve the lives of people everywhere. While many rightfully worry about whether AI will ultimately be good or bad for humanity, AI enabled lending is undeniably a winner for the American family.

A few weeks ago, we Upstarters gathered in San Diego to kick off 2025 with our 2nd annual “Upstart Live” conference. The theme of the event was “Game changers” and we spent a lot of time talking about what it will take to create a generational company - a destination for credit unlike any other in the world. 2025 is mostly about taking giant leaps toward the best rate and best process for all - across each of our products. This is an incredibly challenging goal, but it’s realistically within our grasp. We believe success at offering the best rate and best process to all will create a brand and company for the ages.

On May 14th we’ll host an event we’re calling “Upstart AI Day” for investors and analysts in New York City where we’ll provide an in-depth look at our technology, our business model, and the incredible opportunity the combination of the two unlocks. This event is a great opportunity to connect with more of our management team and gain deeper insight into what we’re building and how it sets us apart.

Thank you, and I’d now like to turn it over to Sanjay, our Chief Financial Officer, to walk through our 2024 financial results and guidance. Sanjay?

Sanjay Datta, CFO

Thanks Dave, and thanks to all of our participants for sharing some of your time with us today.

We are encouraged to be emerging from 2024 with good momentum, having navigated what was an otherwise challenging environment for much of the past year.

At the beginning of last year we set out some ambitious financial objectives: turn around the growth trajectory of the business, continue to scale up our committed capital base, reduce the size and improve the performance of our own balance sheet, and return to Adjusted EBITDA profitability. Our wish list consisted only of a stable macroenvironment. As we look back on the year, we are pleased with our report card.

Versus our nadir in Q1 of 2024, by the fourth quarter:

- Originations were up 86%
- Revenue from fees were up 44%
- The amount of loans on our balance sheet fell by around 25%
- Quarterly net interest income flipped from -\$10m to +\$20m
- Fixed costs were largely controlled
- And we closed the year with two successive quarters of positive Adjusted EBITDA.

The macro did indeed remain largely steady over the back half of the year from a credit default perspective, even showing recent signs of improvement since attaining peak defaultiness sometime last spring, as reflected in our published macro index, the UMI. This welcome break from the consistently degrading environment of the prior two years allowed some of our more recent model improvements to see the light of day, giving us good momentum on conversion wins over the last two quarters of the year. Our conversion rate in Q4 was at its highest level in nearly three years.

Additionally, as of year end, all of the recent credit priced on our platform on behalf of lenders and investors was on track to meet return targets, giving our funding partners increasing confidence to continue leaning into our marketplace with their supply of lending capital.

With this as context, here are some financial highlights from the fourth quarter of 2024, which exceeded our guidance across virtually all metrics.

Revenue from fees was \$199 million, up 30% year-over-year and 19% sequentially, partially from aforementioned model enhancements and partially from a combination of lower UMI and last fall's rate cuts working their way into our platform pricing. Net interest income was almost \$20 million as we've now mostly worked off underperforming older vintages, and as the falling UMI is increasingly reflected in improving fair value marks. Taken together, Net Revenue for Q4 came in at approximately \$219 million, up 56% year-on-year and 35% quarter-on-quarter.

The **volume of loan transactions** across our platform was approximately 246,000, up 89% from the prior year and up 31% sequentially, and representing 162,000 new borrowers. Average loan size of approximately \$8,580 was up from \$8,400 in the prior quarter, reflecting continued model improvements that allowed us to approve higher loan amounts.

Our **Contribution Margin**, a non-GAAP metric which we define as revenue from fees, minus variable costs for borrower acquisition, verification and servicing, as a percentage of revenue from fees, came in at 61% in Q4, flat versus the prior quarter. Despite a marginally lower take rate than Q3, margins were supported by the strength of our conversion funnel which reinforced our customer acquisition efficiency, as well as an improving cost to service borrowers.

GAAP Operating Expenses were roughly \$224 million in Q4, up 8% sequentially from Q3; expenses that are considered variable, relating to borrower acquisition, verification and servicing, were up 19% sequentially, in-line with the growth of the corresponding fee revenue base. Fixed expenses were marginally up by 3% versus Q3, due to continued catch-up accruals for expenses that were not being incurred earlier in the year at our lower volumes, some of which will be temporary in nature.

You can expect that we will continue to pursue tight fixed expense management as a core principle of how we manage our business.

All together, Q4 **GAAP Net Loss** was \$2.8 million, well ahead of expectation and reflecting the outperformance on the top-line against our steady margins and fixed cost base. Adjusted **EBITDA** was \$39 million, also scaling nicely in accordance with our operating leverage, and positive for the second consecutive quarter. Adjusted earnings per share was \$0.29 based on a diluted weighted average share count of 103 million¹.

We completed the full year with net revenue of approximately \$637 million, up 24% from 2023, a Contribution Margin of 60%, and positive Adjusted EBITDA of \$10.6 million, representing a 2% Adjusted EBITDA margin versus a negative margin of 3% a year earlier.

We ended the year with \$806 million of loans on balance sheet, consisting of \$703 million of loans held directly, and \$103 million from the consolidation of a securitization deal in which we retain minimal economic exposure.

The \$703 million of loans held directly is down 28% from the prior year, but rose sequentially from \$537 million in Q3 as the surge of borrower volume outstripped our expectations for the quarter. We view this to be a short-term timing issue - rising borrower volumes are the signal for us to put in place the next set of capital arrangements, which we are now well down the path towards. Our objective remains to continue reducing the amount of loans held directly on our balance sheet as the year progresses.

The \$103 million of consolidated loans are from a securitization deal completed back in 2023, from which we retain a total net exposure of only \$16 million.

Our unrestricted cash position also strengthened, as we ended the year at \$788 million, up from \$445 million in the prior quarter and reflecting the proceeds from two convertible debt issuances that we did in the back half of last year.

As we gear up for the year ahead, we will strive for the following objectives and plan against the following baseline assumptions:

- A relatively stable macroenvironment, and a constant Upstart Macro Index.
- No assumption of any rate cuts.
- A historical pace of modeling wins and conversion gains that will drive the majority of our growth.
- Relatively stable Contribution Margins, although our efforts to grow in the primer borrower segments, if successful, may put some downward pressure on average margins and take rates.
- Continued availability of third party funding as we scale platform volume.
- Continued fixed cost containment, and continued pruning of the loans held directly on balance sheet.

¹ Adjusted earnings per share and diluted weighted average share count were corrected with an 8-K/A on 2/13/2025.

Additionally, as we complete a shift from multi-year over to one-year equity grants, we expect to see a negative impact on stock-based compensation expense. While one-year grants will generally result in lower economic dilution by aligning calculated amounts with the current stock price, they will incur a higher accounting charge than older grants which are typically expensed at the lower historical prices.

With these items as context, and with a reminder that the first quarter is typically our seasonally slowest quarter, for Q1 of 2025 we are expecting:

- Total Revenues of approximately \$200 million, consisting of Revenue from Fees of \$185 million, and net interest income of approximately positive \$15 million
- Contribution Margin of approximately 57%,
- Net income of approximately negative \$20 million,
- Adjusted net income of approximately positive \$16 million,
- Adjusted EBITDA of approximately \$27 million, with a
- Basic weighted average share count of approximately 95 million shares and a
- Diluted weighted average share count of approximately 105 million shares.

For the full year of 2025, we are expecting

- Total Revenues of approximately \$1 billion, consisting of Revenue from Fees of \$920 million, and net interest income of approximately positive \$80 million,
- Adjusted EBITDA margin of approximately 18%,
- And we expect GAAP Net Income to be at least breakeven for the year.

Thanks to all once again for joining us on this call. To the Upstart employees, profound thanks to you for all your efforts and contributions as we've navigated this past year together. Excited about 2025, I am.

Operator, over to you.