

Q2 2025 Earnings Call

Tuesday, August 5, 2025

Conference call: 1:30pm PST

Participants:

Dave Girouard, Co-founder and CEO

Paul Gu, Co-founder and CTO

Sanjay Datta, CFO

Ross Monro, SVP Finance

Sonya Banerjee, Head of IR

Operator:

Good afternoon and welcome to the Upstart second quarter 2025 earnings call. At this time, all participants are in listen-only mode to prevent any background noise. Later, we will conduct a question-and-answer session and instructions will be given at that time. As a reminder, this conference call is being recorded. I would now like to turn the call over to Sonya Banerjee, Head of Investor Relations. Sonya, please go ahead.

Sonya Banerjee, Head of IR

Thank you. Welcome to the Upstart earnings call for the second quarter of 2025. With me on today's call are: Dave Girouard, our co-founder and CEO, Paul Gu, our co-founder and CTO, 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, which are subject to a variety of risks, uncertainties, and assumptions, and should not be viewed as a guarantee of future performance. 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.

With that - Dave, over to you.

Dave Girouard, Co-founder and CEO

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

Before I begin, I want to welcome my co-founder Paul to the call today. As most of you know, in May we hosted our first investor day - what we called AI Day. For many investors and analysts who cover Upstart, it was their first exposure to Paul. Unsurprisingly, AI Day generated a lot of interest in how he and his teams are creating the world's leading AI lending platform. After the event, many told us they'd like to see and hear more from Paul, so we asked him to join our quarterly earnings calls. You'll hear from Paul in just a bit.

Onto the update. On our call year ago, we provided the first signs that Upstart was returning to growth mode - and today you can see it in full bloom. The second quarter was exceptional for Upstart. In addition to achieving triple-digit revenue growth, we reached GAAP profitability a quarter sooner than expected. Additionally, our newer businesses - Home and Auto - actually accelerated off the amazing growth you all saw from them in the first quarter.

Originations on the Upstart platform in Q2 were \$2.8B - our highest volume in three years. Revenue in Q2 grew 102 percent year-on-year, helping us deliver positive GAAP net income for the first time since Q2 2022. Our Auto business grew 87 percent sequentially while our home business grew 67 percent sequentially. While this friendly sibling rivalry tends to go back and forth in terms of growth rate, I can happily say both businesses accelerated meaningfully from their Q1 growth. For the first time ever, more than 10 percent of our originations came from our newer products, including our small dollar loans, which grew 40 percent sequentially. Our teams couldn't be happier - after a long period of super focused execution, it all just seems to be working right now.

Core business progress

Once again, our growth last quarter was not a result of dramatic macro improvements or Fed rate decreases. In fact the Upstart Macro Index has been largely stable for several months now. Our growth was primarily on the back of model improvements, which helped drive conversion rates from 19% in Q1 to 24% in Q2. These wins came first and foremost from Model 22 which we launched in early May. Paul will share more about our model advancements shortly.

In addition to our ML team, our growth and operations teams continue to do amazing work to drive down the cost of acquisition and origination. These are technology-driven economic wins that result in a superior product for the consumer and a sustainable advantage for Upstart.

Newer businesses

As I mentioned earlier, our emerging businesses are growing really quickly. Small dollar loans and Auto each crossed \$100M in quarterly originations in Q2 and we expect Home - the new kid on the block - to follow soon. Our newer products collectively drove almost 20 percent of new borrowers on the Upstart platform in Q2.

For each of these emerging products, we're now reaching the point where credit history is sufficient and volumes are substantial enough for third-party funding. In fact, we have a goal to transition most of the funding for these products off our balance sheet by the end of 2025, though deal timing is always hard to predict.

It's worth noting that our Auto retail product - that is, our software installed at car dealerships - has really gained traction and momentum in the last couple of months. This product has always presented unique challenges relative to our others and it's clearly taken Upstart some time to get it right. Several months ago, we took the decision to narrow the focus of our software on an exceptional financing process - and this focus has paid off in spades. The dealership adoption right now is like nothing we've seen in the past and the volume of loan requests and closed agreements from our dealer partners is on a steep climb. This is a recent phenomenon and I expect we'll share more about this as it plays out.

In our Home business, we're increasingly confident we're on a path to building the best-in-class HELOC experience. Home is a massive and fragmented category with few players versed in AI and its amazing potential to power superior home lending products. In Q2, we launched instant property verification, with the first applicant completing the entire verification process in under one minute. Our system automatically verified their identity and income, assessed the property's value and any existing liens, and confirmed ownership and vesting information - all the key steps needed to close the loan. I believe this speed and efficiency in what is normally a slow, handcrafted process is without precedent.

Funding

We continue to strengthen the funding supply on Upstart's platform. Our funding partnerships have been both durable and scalable, allowing us to grow rapidly while delivering the target returns our partners expect. With respect to banks and credit unions, we expect to reach a new all-time high for monthly available funding in Q3 - surpassing our prior peak from early 2022.

The funding markets continue to improve as the year progresses, particularly since the "liberation day" fears in early April subsided. In June, we priced and closed our second ABS deal of 2025 delivering significantly improved execution compared to our first, which closed in April. It's worth noting that the more recent transaction had nearly twice the number of investors as the first, including some new names.

We feel increasingly confident that these committed funding partnerships can scale with our business as needed and will play an important role as we begin to commercialize our newer products.

Conclusion

Before I turn the call over to Paul, I'll share a few final thoughts. Looking over the last couple years, we've done a lot of work to run our business more efficiently and streamline our cost structure. But we had conviction that investing in the much larger home and auto opportunities

made sense. These categories are ripe for AI disruption and they've expanded Upstart's TAM by more than 10X. Our considerable investments in home and auto are really paying off - with fast growth, strong credit performance, rapidly improving separation, and commercial readiness, with nine lending partnership deals recently signed across one or more of our secured products already. To be clear, our goal is market share leadership in each one of these product categories in the future.

As our CMO Chantal mentioned at AI Day, we're building the always-on everything store for credit, aiming to persistently underwrite 100% of Americans with the best credit products in the world just a click away. And we're off to a great start.

Thanks and now I'd like to turn it over to Paul, my co-founder and Upstart's Chief Technical Officer. Paul?

Paul Gu, Co-founder and CTO

Thanks, Dave.

Our aim at Upstart is to win by having objectively the best rates and process for borrowers, and technology, specifically AI, is how we do that. To that end, I want to highlight several areas of recent progress.

First, we've continued investing in our core AI advantage. Model 22 made use of neural networks at every level of the model architecture, whereas prior models only made use of neural networks in the base layer. This may sound like a subtlety, but it increased our separation accuracy advantage over our benchmark textbook credit model by 17 percentage points, to 171.2%. Equivalently, it decreased the inaccuracy remaining to be solved to 87.5%. This is a metric where the starting point is the benchmark textbook credit model I described back at AI day, and 0% would be a model that gets every credit decision perfectly right. As you can see, there is a long way to go, but fortunately we have a commensurately long roadmap of model improvement ideas to get there.

As of the end of Q2, core underwriting had 91 million borrower repayment events to train on, up from 86 million at the end of the prior quarter. To support the larger and more complex models, we invested in further parallelization and cache-ing solutions that cut up to 17 seconds of latency off borrower pricing, and saved on model costs. Those time and resource savings can now be re-invested in yet more powerful models.

Second, servicing is the newest frontier for us, and realizing loss reductions via best-in-class servicing has been a major focus. Over the past year, including the most recent quarter, we launched numerous improvements and optimizations to how customers can pay, how much they pay and when they pay. As a result, year-over-year, population-adjusted delinquency rates are down 20%, and raw delinquency rates are down 32%.

Machine learning is already informing many of these optimizations, and will soon allow us to determine the causal impact of servicing actions we take. This will include assignment of specific agents, hardship programs, or settlement offers to specific borrowers. We also plan to apply ML to the problem of individualized recovery prediction for the first time ever, replacing a fixed-assumption about an economically significant portion of loans' cash flows with machine learning. Servicing wins directly improve loss rates on loans, which in turn improves the pricing and approvability of new loans.

Third, we made strong progress in Q2 generalizing our AI technology across product verticals. I want to start by noting that even with accelerating growth in new products, our share of fully automated loans actually kept up this quarter. That will be challenging to keep pace with, but we're encouraged by wins we had across new products. As Dave mentioned, HELOC had its first instant property verification, which involved solving for over a dozen facts or documents that previously required waiting for a manual verification. In auto refi we launched full automation of the remote online notarization process. Both of these wins remove major procedural barriers to model-driven automation, which we've seen relentlessly drive the percentage of loans fully automated up in core personal loans over the past few years.

Our growth in auto has been supported by and coincides with strong advances in generalization of our core underwriting technology. Auto is the first area where instead of directly training an auto model, we start by training a foundational credit model on data from multiple credit categories, and then apply fine tuning to arrive at an auto specific model. We are now working to add embeddings to the auto retail model along with generalizing what we call "APR as a feature" and our macro-framework from personal loans. This type of model generalization is powerful because it means all of our loan products can learn from repayment patterns observed across our platform – not just within their individual category.

Lastly, I want to touch on generative AI and its applications to our business. I'll start with the table stakes - like any good tech company, we've realized solid productivity wins from application of large-language-models to our internal operations. 60% of our developers are weekly active users of LLM-powered developer tools, and teams all across the company have built over 700 custom GPTs to automate various internal workflows.

More interesting are the applications to the end borrower. We have already launched early versions of borrower-impacting generative AI tools around model explainability and customer service. We will continue to build on these, with an eye towards eventual agentic management of our consumers' credit needs.

As Dave has discussed, one of our key priorities in 2025 is to 10X our leadership in AI. We continue to have a robust pipeline of modeling wins, and I'm incredibly proud of the team and what we've been able to accomplish so far.

With that, I'll turn it over to Sanjay. Sanjay?

Sanjay Datta, CFO

Thanks Paul, and thanks to all of our participants for sharing some of your time with us today. I'll now spend some time giving context on our numbers.

With respect to its impact on financial performance, the credit environment we operate in was largely a non-story in Q2. The emergence from last quarter's tax seasonality played out roughly as expected, and the broader macro has been idling in regards to its impact on credit trends, registering as neither a significant headwind nor tailwind over the past few months.

As Dave alluded to, the strong sequential momentum we achieved in Q2 is largely due to the strength of our model launches during the quarter. In addition, take rates and Contribution Margins increased in the core personal loan business, although in our aggregate numbers these dynamics were partially offset by the continued rapid scaling of the newer Home and Auto products, which still have immature unit economics.

The combination of these effects allowed us to beat our guidance across both top and bottom lines in Q2 and break through to GAAP profitability a quarter earlier than anticipated.

We have been able to comfortably fund the ongoing growth in the core Personal Loan business through our existing lending relationships and capital structures. The main source of pressure on the balance sheet as it currently stands is from the continued scaling of the new products, and an increasing priority for us this year will be to finalize and implement our third-party capital plan for these new products.

With this as context, here are some of the financial highlights from Q2 of 2025:

Total Revenue for Q2 came in at approximately \$257 million, up 102% year-on-year.

This overall number included **Revenue from fees** of approximately \$241 million, which was up 84% year-over-year and 15% better than guidance. Within this, transactional revenue more than doubled year-over-year, largely reflecting the influence of the aforementioned Model 22. Separately, Servicing fee revenue grew by nearly 20% year-over-year as the outstanding book of serviced loans continued to expand.

Net interest income represented roughly \$17 million of overall revenue, ahead of guidance by \$2 million, reflecting the growing volume of new products being incubated on our balance sheet, and in particular the Auto book of loans where our return on investment has meaningfully strengthened.

The **volume of loan transactions** across our platform was approximately 373,000, up 159% from the prior year and 55% sequentially, and representing just over 250,000 new borrowers.

Average loan size of approximately \$7,570 was 15% lower than the prior quarter as model advancements drove higher approval rates in smaller 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 58% in Q2, up 3 percentage points from the prior quarter and exceeding guidance. This improvement reflects a strengthening take rate in our Core borrower segment, in addition to the acquisition and operational unit cost efficiencies driven in part by Model 22.

GAAP Operating Expenses were roughly \$252 million in Q2, up 16% sequentially from Q1. Expenses that are considered variable, relating to borrower acquisition, verification and servicing, were up 21% sequentially relative to the 55% increase in volume of loan transactions, supporting the higher Contribution Margins previously referenced. Fixed expenses were up 13% quarter-over-quarter, largely reflecting a one-time catch-up in compensation-related accruals, which on the current business trajectory we expect will normalize in the back-half of the year.

Q2 **GAAP Net Income** was approximately positive \$6 million, well ahead of expectation and reflecting outperformance on fee revenue against our tightly managed fixed cost base. Returning to GAAP profitability has been an important objective of ours over the past year, and I am proud that our team has reached this milestone ahead of schedule and while subsisting in the persistently high default environment that still surrounds us today. Now that we are over the line, we will look forward to continuing the positive momentum of our bottom line and to improving our profitability profile as we scale.

Adjusted EBITDA was \$53 million, also scaling nicely in accordance with our operating leverage. Adjusted earnings per share was \$0.40 based on a diluted weighted average share count of 118 million.¹

We ended Q2 with approximately \$1.02 billion of loans held directly on our balance sheet, up from \$815 million in Q1. This sequential increase is mainly due to the continuing growth of our new products, which have all simultaneously entered the transitional period between R&D and commercialization, a period in which we must ramp deliberately in order to demonstrate credit performance and our ability to deliver meaningful volume before obtaining third-party funding commitments. In this regard, we are in a bridging period with these new products, which is precipitating what we expect to be a temporary expansion of balance sheet usage that we intend to reverse as these products exit incubation. As Dave mentioned, we have already begun the process of securing external capital to support these initiatives, and we believe these efforts will allow us to transition away from direct balance sheet funding of these in the near-term.

As we plan for the back half of the year, our macro assumptions remain consistent with our prior view, which is to say a steady environment with a UMI continuing in the 1.4-1.5 range, steady interest rate levels, and a labor market that remains resilient in the face of unpredictable policy shifts. Inflation will remain a near-term risk. In this environment, we expect to continue to launch

¹ Adjusted earnings per share was corrected with a Form 8-K/A filed with the SEC on 8/6/2025.

model enhancements that improve conversion rates, our take rates and contribution margins will remain robust, and we will continue to scale and fund the newer products.

In this scenario, for Q3 of 2025 we would expect:

- Total Revenues of approximately \$280 million, consisting of Revenue from Fees of approximately \$275 million, and total net interest income of approximately positive \$5 million,
- Contribution Margin of approximately 58%,
- GAAP net income of approximately positive \$9 million,
- Adjusted net income of approximately \$44 million,
- Adjusted EBITDA of approximately \$56 million, with a
- Basic weighted average share count of approximately 97 million shares and a
- Diluted weighted average share count of approximately 105 million shares.

For the full year of 2025, we now expect:

- Total Revenues of approximately \$1.055 billion, consisting of Revenue from Fees of approximately \$990 million, and net interest income of approximately positive \$65 million,
- Adjusted EBITDA margin of approximately 20%,
- And we expect GAAP Net Income of approximately positive \$35 million.

These numbers are of course the outcome of a lot of hard work and great execution by the various teams across Upstart, so I will take this opportunity to both thank and congratulate all of those teams. And with that, operator, over to you to kick off the Q&A.