Upstart

Q1 FY 2022 Earnings
May 09, 2022

Disclaimer

This presentation contains “forward-looking” statements that are based on our management’s beliefs and assumptions and on information currently available to management. Forward-looking statements include all statements, other than statements of historical fact contained in this presentation, including but not limited to, information or predictions concerning our future financial performance, including our financial outlook for Q2 2022 and FY 2022 under the heading “Outlook” and modeled default rates under the heading “Credit Performance”, projected growth and other strategies, business plans and objectives, potential market and growth opportunities, competitive position, technological or market trends and industry environment. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expect,” “plan,” anticipate,” “believe,” “estimate,” “predict,” “intend,” “potential,” “would,” “continue,” “ongoing” or the negative of these terms or other comparable terminology. You should not put undue reliance on any forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved, if at all.

Forward-looking statements are based on information available at the time those statements are made or management’s good faith beliefs and assumptions as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in, or suggested by, the forward-looking statements. In light of these risks and uncertainties, the events and circumstances contemplated by the forward-looking statements made in this presentation may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. These risks and uncertainties are described in greater detail under the heading “Risk Factors” in our 10-Q that we filed with the Securities and Exchange Commission (the “SEC”) on May 9, 2022 and other periodic SEC filings, and include, but are not limited to, our ability to sustain our growth rates; the effectiveness of our credit decisioning models and risk management efforts; overall economic conditions; geopolitical events, such as the Russia-Ukraine conflict; disruptions in the credit markets; our ability to retain existing, and attract new, bank partners and lenders; and our ability to operate successfully in a highly-regulated industry. Moreover, we operate in very competitive and rapidly changing environments, and new risks may emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Additional information will be available in other future reports that we file with the SEC from time to time, which could cause actual results to vary from expectations. Except as required by law, Upstart does not undertake any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

This presentation contains statistical data, estimates and forecasts that are based on independent industry publications or other publicly available information, as well as other information based on our internal sources. This information involves many assumptions and limitations, and you are cautioned not to give undue weight to these estimates. We have not independently verified the accuracy or completeness of the data contained in these industry publications and other publicly available information. Accordingly, we make no representations as to the accuracy or completeness of that data nor do we undertake to update such date after the date of this presentation.

This presentation includes non-GAAP financial measures, including contribution profit, contribution margin, adjusted EBITDA, adjusted EBITDA margin, adjusted net income, and adjusted net income per share. These non-GAAP financial measures are in addition to, and not as a substitute for or superior to measures of financial performance prepared in accordance with GAAP. There are a number of limitations related to the use of these non-GAAP financial measures. For example, other companies may calculate similarly-titled non-GAAP financial measures differently. Refer to slides 18-20 for a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures.

Our mission is to enable effortless credit based on true risk.

Why? Because credit really matters.

Money is a fundamental ingredient of life, and unless you're in the few percent of Americans with significant wealth, the price of borrowing affects you everyday. Through all of history, affordable credit has been central to unlocking mobility and opportunity.

Upstart at a glance

Upstart is an AI lending platform partnering with banks and and credit unions to improve access to affordable credit

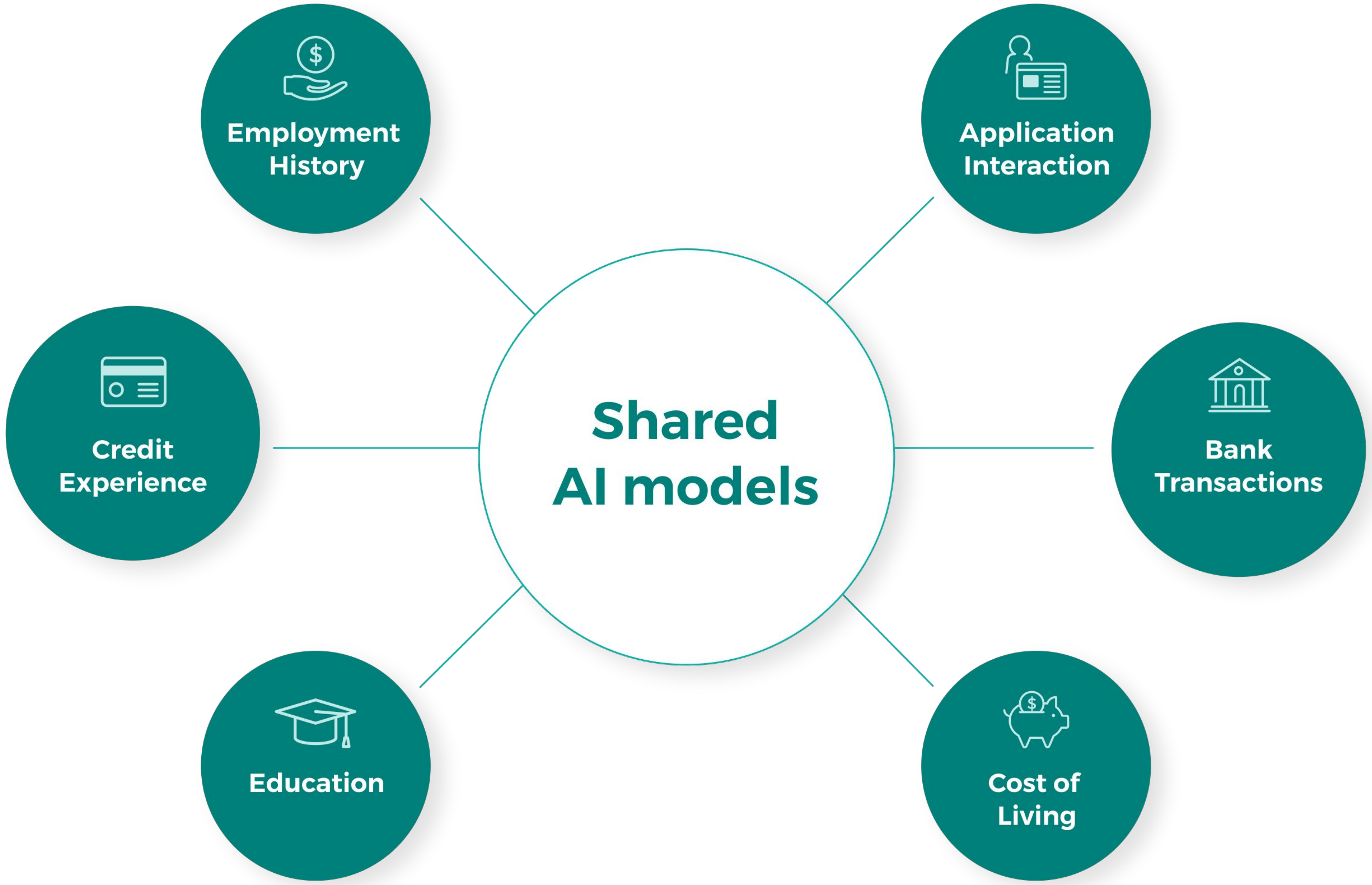
Two-sided business
consumers connected to AI-enabled lenders

Over $25B of loans[1]
have been facilitated by our platform

Rapid, profitable[2] growth
driven by continual improvement of AI models

Instant and automated approvals
74% of loans are instantly approved and fully automated[3]

83+ Net promoter score
Borrowers love Upstart with 32K+ rating us ‘Excellent’ on Trustpilot



[1] As of 3/31/22
[2] GAAP net income profitable since FY 2020.
[3] In Q1 2022.

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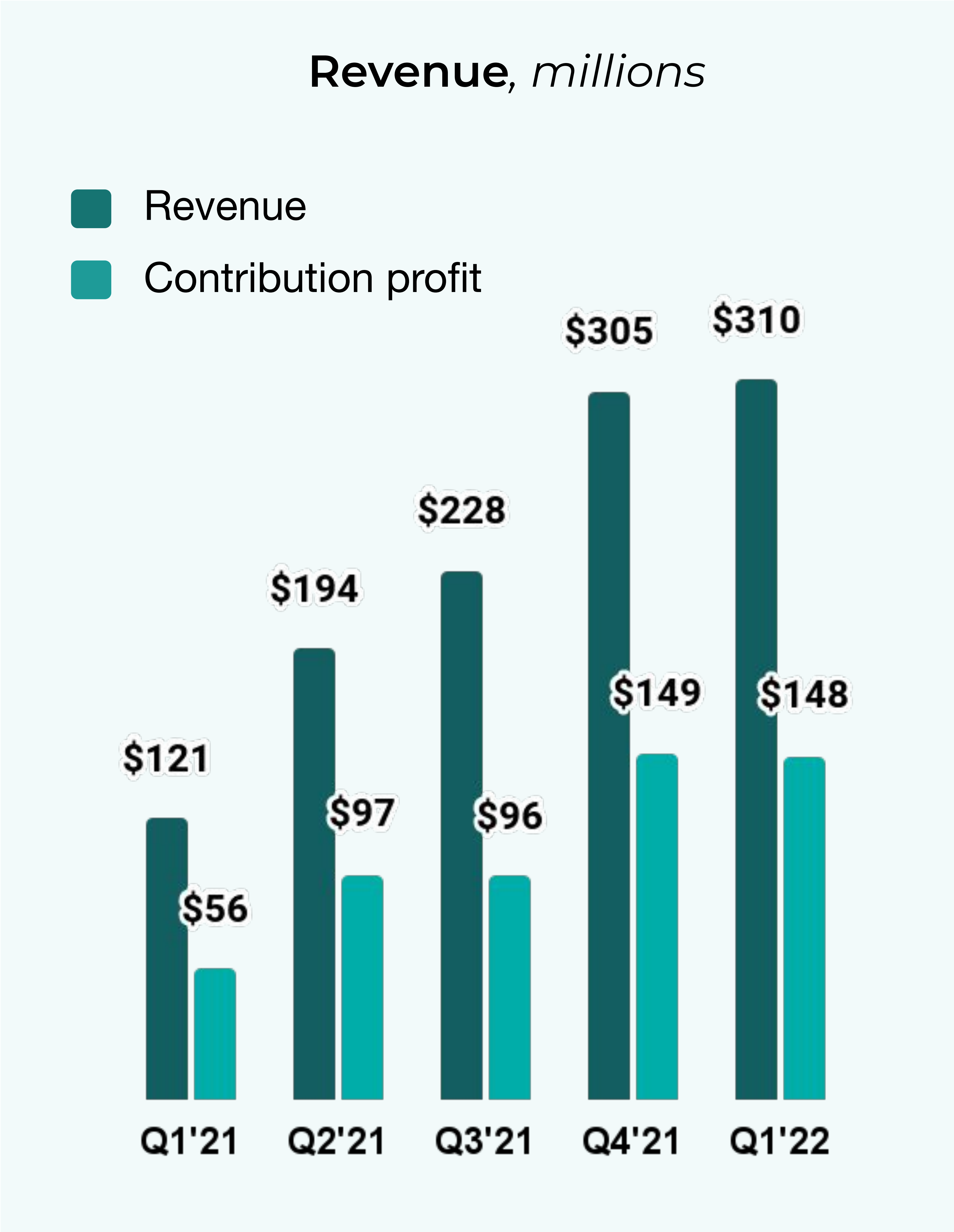
Q1’22 Key financial highlights



Revenue:
$310M, up 156% Y|Y

Income from Operations:
$34.8M, up 124% Y|Y

Contribution Profit:
$147.8M, up 165% Y|Y, and representing 47% of fee revenue

Net Income:
$32.7M, up 224% Y|Y

Adjusted EBITDA:
$62.6M, or 20% of revenue, up 288 bps Y|Y

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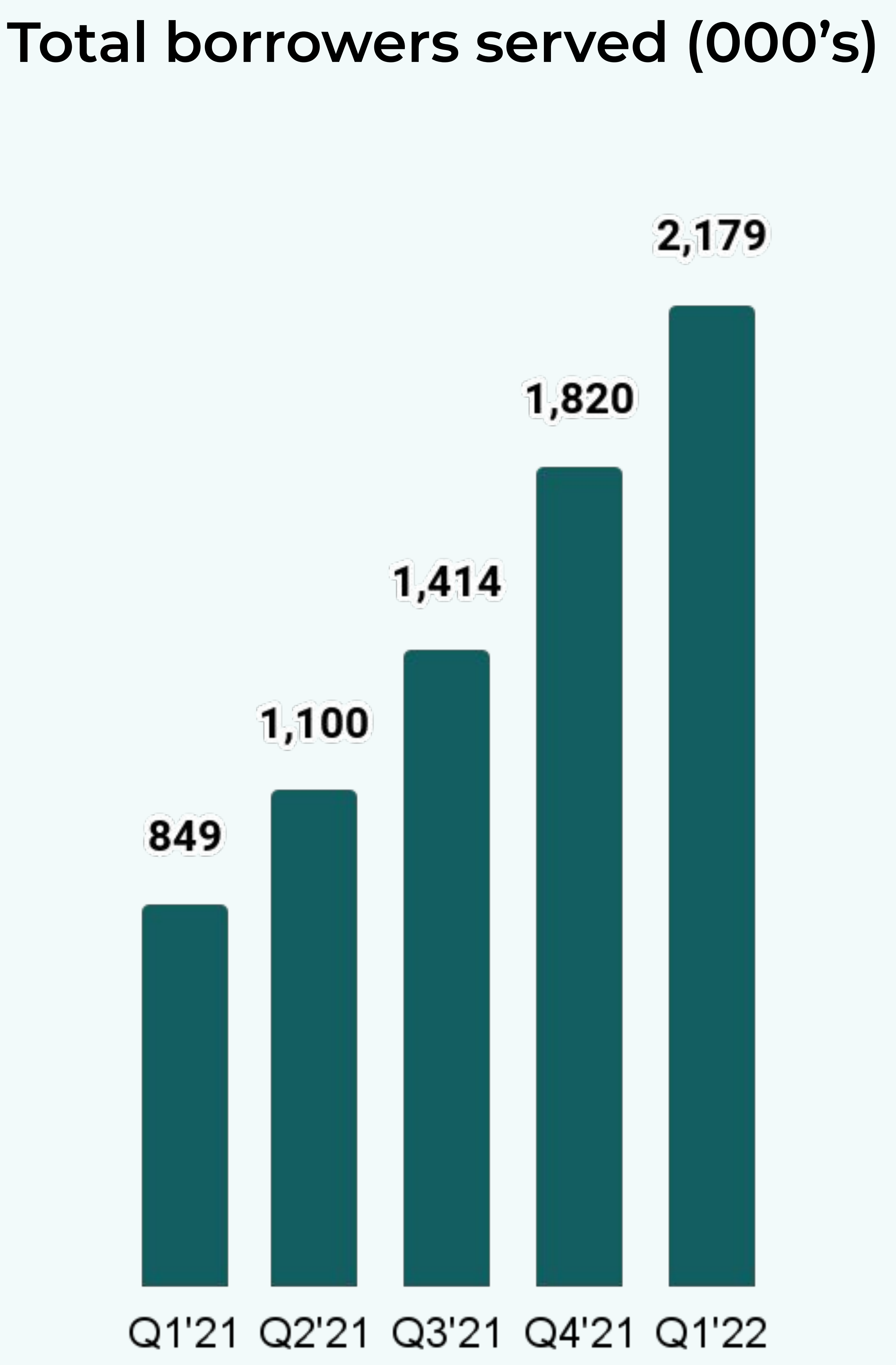
A win for consumers



Higher approval rates, lower APRs

Personal Loans from $1K-$50K
Auto Refinance Loans from $9K-$60K

74% instantly approved - no document uploads, calls or waiting[1]

The Upstart model approves 43% more Black borrowers than a traditional model at 24% lower APR's; and 46% more Hispanic borrowers than a traditional model at 25% lower APR's.[2]

[1] In Q1 2022

2 As of December 31, 2021, and based on a comparison between the Upstart model and a traditional credit-score only model. Upstart does not collect demographic data on borrowers. Upstart uses standard industry methodology to estimate borrower demographic status to conduct access-to-credit analysis comparing Upstart to traditional credit model outcomes

Rapid bank and credit union adoption

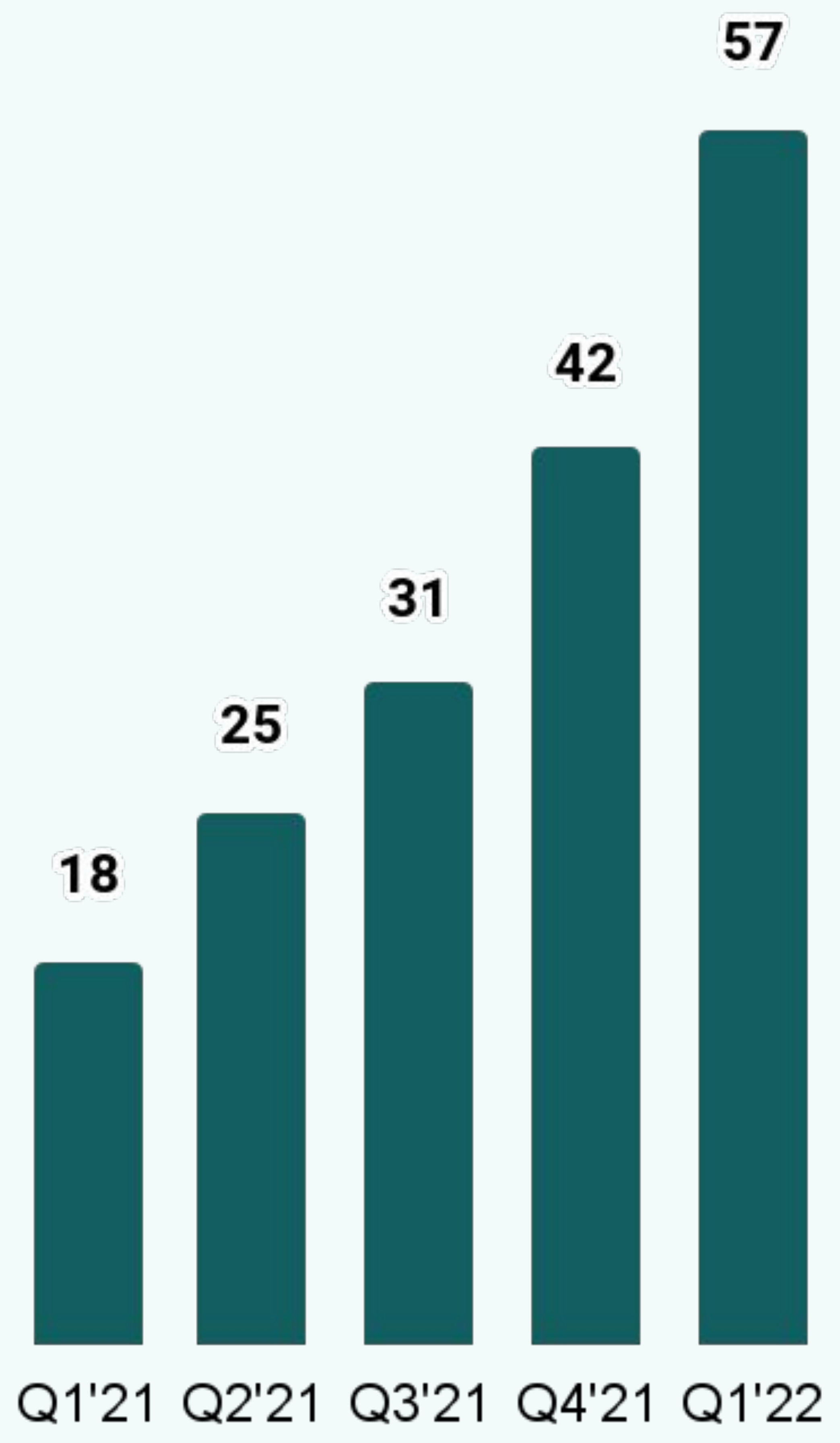
Highly automated, all-digital experience

Customizable to bank's credit policies and risk appetite

Improved credit access for all demographics tested

Comprehensive fairness testing

Bank and Credit Union Partners[1]



[1] Number of bank and credit union partners reported as of the earnings announcement of each respective quarter.

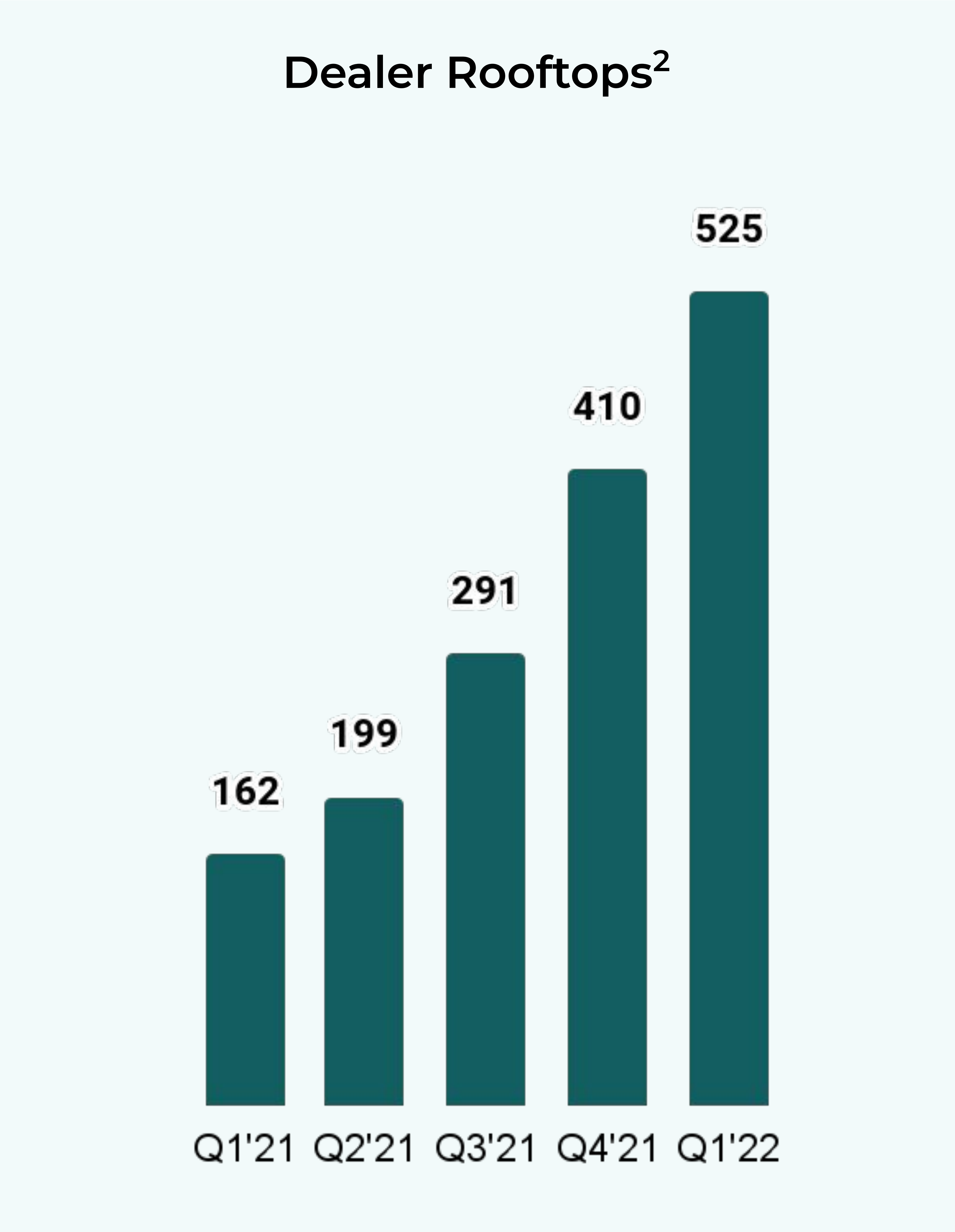
Large emerging auto opportunity

Dealership footprint spans 35 different OEMs including VW, Toyota, Ford, Honda, Subaru, Mitsubishi, Kia, & BMW.

Tripled dealership footprint Y|Y and grew 28% Q|Q

Borrowers saved an average $4,800[1] over the life of the loan by refinancing

13 lending partners signed up for auto lending on our platform



1. This information is estimated based on all consumers who were approved for an auto refinance loan through Upstart and accepted their final terms. As of 1/1/22, borrowers who refinance save an average of $4,800 over the lifetime of their loans. These savings are not guaranteed. To evaluate savings on a loan you are considering refinancing, it is important to compare your APR and remaining term from your existing automotive loan to the APR and term offered through Upstart.
2. Number of total dealer locations using Upstart Auto Retail software as of the end of each financial quarter.

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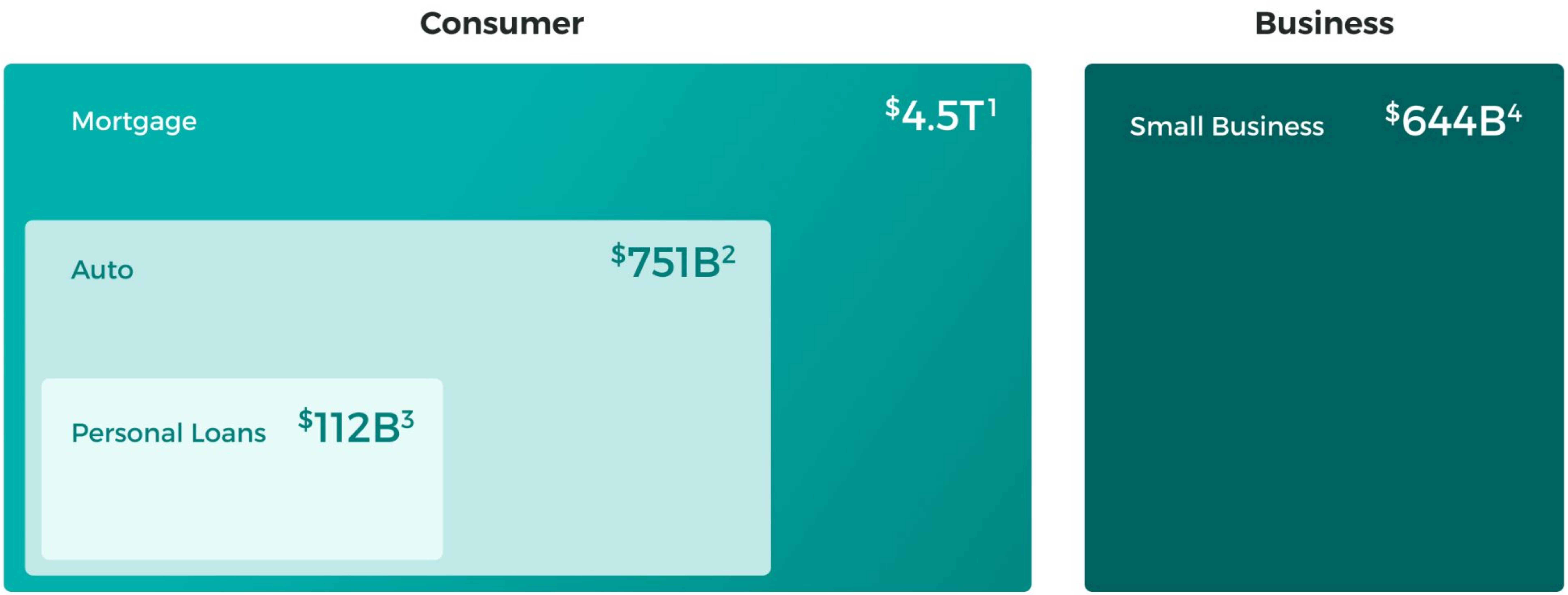
$6T annual loan origination TAM



[1] Total mortgage originations using data provided by TransUnion for Q4 2020 – Q3 2021
[2] Total auto loans using data provided by TransUnion for Q4 2020 – Q3 2021
[3] Total unsecured personal loans using data provided by TransUnion for Q4 2020 – Q3 2021
[4] Total small business loans using data provided by the Office of Advocacy U.S. Small Business Administration, September 2020, for 2019 fiscal year

Q1'22 summary P&L and non-GAAP metrics

(in millions, except ratios and per share data)

	Q1'22	Q4'21	Q|Q	Q1'21	Y|Y
Revenue	$310.1	$304.8	2%	$121.3	156%
Revenue from Fees	$314.0	$287.4	9%	$116.2	170%
Income from Operations	$34.8	$60.4	(42%)	$15.6	124%
Net Income	$32.7	$58.9	(44%)	$10.1	224%
Adjusted Net Income	$58.6	$87.0	(33%)	$19.9	194%
Earnings Per Share (Diluted)	$0.34	$0.61	(44%)	$0.11	209%
Adjusted Earnings Per Share (Diluted)	$0.61	$0.89	(31%)	$0.22	177%
Contribution Profit	$147.8	$149.5	(1%)	$55.8	165%
Contribution Margin	47%	52%	(493bps)	48%	(94bps)
Operating Expenses	$275.3	$244.4	13%	$105.8	160%
Adjusted EBITDA	$62.6	$91.0	(31%)	$21.0	198%

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Balance Sheet items and key operating metrics

(in millions, except Transaction Volume (number of loans), % fully automated, ratios and conversion rate)

	Q1'22	Q4'21	Q1'21
Cash and Restricted Cash	$1,012.7	$1,191.2	$336.1
Loans, Notes, and Residuals	$604.4	$260.8	$73.2
Total Assets	$1,987.6	$1,820.5	$488.6
Total Liabilities	$1,111.1	$1,013.4	$168.0

Transaction Volume, Number of Loans	465,537	495,205	169,750
Transaction Volume, Dollars	$4,535	$4,098	$1,729
% Fully Automated	74%	70%	71%
Conversion Rate	21.4%	24.4%	22.0%

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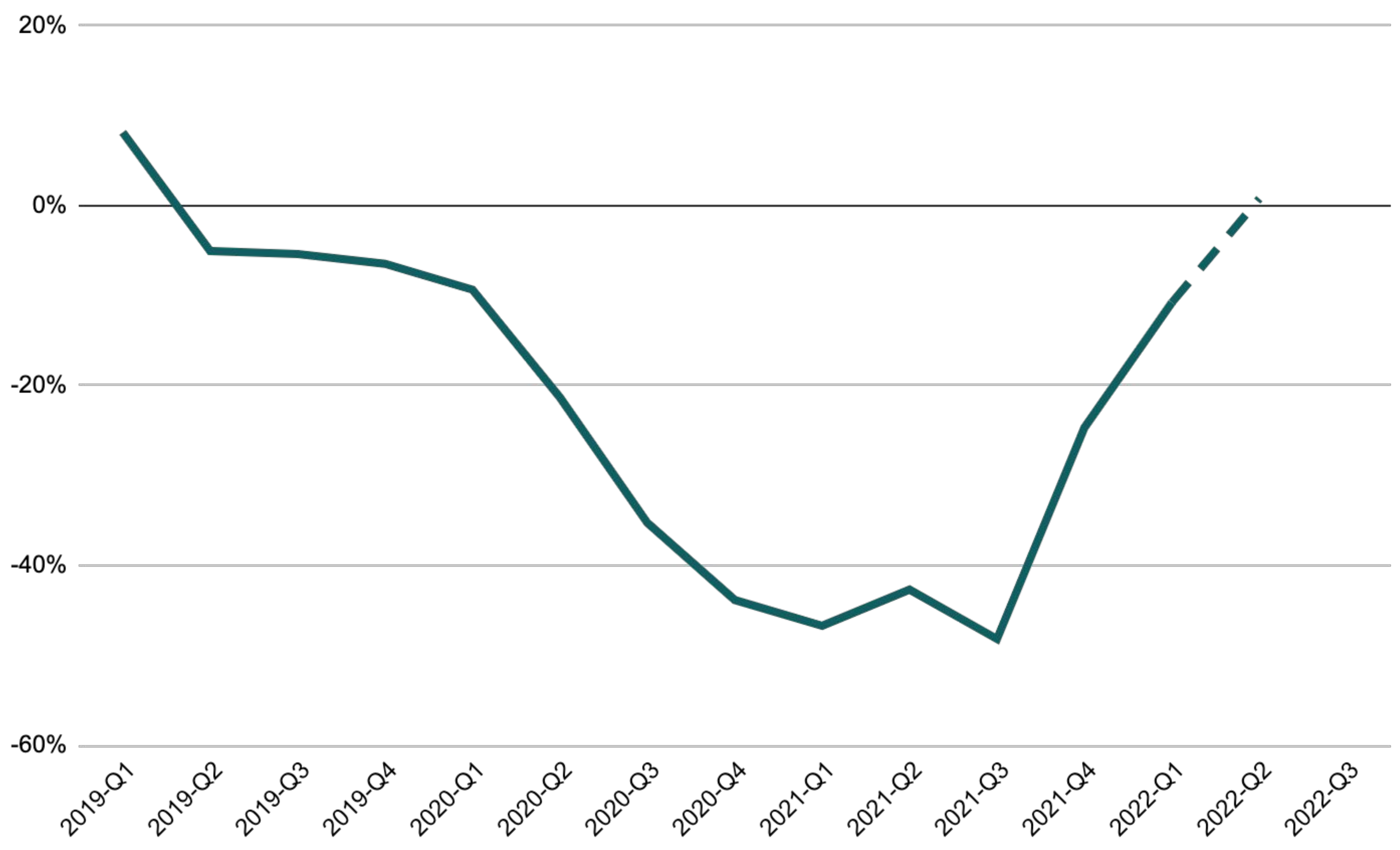
Credit Performance

In-Period Defaults vs. Modeled by Q – (Prior 4 Yr Vintages)[1]

Government stimulus lead to a temporary overperformance, which reverted abruptly in Q421.



Annualized Default Rates as of Mar'22 (Prior 4 Yr Vintages)[2]

Upstart AI continues to separate risk significantly more accurately than traditional underwriting.

Upstart Risk Grade

FICO Score	A+	B	C	D	E-	Average
700 or Above	0.6%	2.0%	3.9%	6.0%	9.2%	**3.4%**
680 - 699	0.7%	1.9%	3.6%	5.1%	8.3%	**4.1%**
660 - 679	0.7%	1.9%	3.5%	5.1%	8.0%	**4.8%**
640 - 659	1.0%	2.0%	3.2%	5.0%	8.3%	**5.4%**
639 or Below	1.2%	2.1%	3.4%	5.2%	10.2%	**7.7%**
Average	**0.7%**	**2.0%**	**3.6%**	**5.3%**	**9.0%**	

[1] Data is for lending partners' originations made via the Upstart platform as of April 25, 2022.
[2] Upstart internal performance data as of March 31, 2022. Includes lending partner originations made 2018-Q1 to 2021-Q3 "vintages."

Outlook

	Q2'22	FY22
Revenue	$295 to $305 million	approximately $1.25 billion
Contribution Margin	approximately 45%	approximately 48%
Net Income	($4) to $0 million	
Non-GAAP Adjusted Net Income	$28 to $30 million	
Adjusted EBITDA	$32 to $34 million	approximately 15%
Diluted weighted average share count	approximately 96.2 million shares	

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Financial Statements

(in thousands, except share and per share data)

	December 31, 2021	March 31, 2022
Assets		
Cash	$ 986,608	$ 757,828
Restricted cash	204,633	254,866
Loans (at fair value)	252,477	597,981
Property, equipment, and software, net	24,259	29,816
Operating lease right of use assets	96,118	93,219
Non-marketable equity securities	40,000	41,000
Goodwill	67,062	67,062
Intangible assets, net	19,906	18,837
Other assets (includes $26,676 and $34,344 at fair value as of December 31, 2021 and March 31, 2022, respectively)	129,392	126,982
Total assets	$ 1,820,455	$ 1,987,591
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 6,563	$ 10,289
Payable to investors	107,598	139,802
Borrowings	695,432	769,222
Accrued expenses and other liabilities (includes $13,095 and $13,531 at fair value as of December 31, 2021 and March 31, 2022, respectively)	103,418	91,723
Operating lease liabilities	100,366	100,051
Total liabilities	1,013,377	1,111,087
Stockholders' equity:		
Common stock, $0.0001 par value; 700,000,000 shares authorized; 83,659,665 and 84,676,746, shares issued and outstanding as of December 31, 2021 and March 31, 2022, respectively	8	9
Additional paid-in capital	740,849	777,582
Retained earnings	66,221	98,913
Total stockholders' equity	807,078	876,504
Total liabilities and stockholders' equity	$ 1,820,455	$ 1,987,591

Financial Statements

(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2021	2022
Revenue:		
Revenue from fees, net	$ 116,170	$ 313,982
Interest income and fair value adjustments, net	5,175	(3,846)
Total revenue	121,345	310,136
Operating expenses:		
Sales and marketing	49,376	133,449
Customer operations	17,388	48,407
Engineering and product development	18,988	49,991
General, administrative, and other	20,019	43,456
Total operating expenses	105,771	275,303
Income from operations	15,574	34,833
Other expense	(5,251)	(2,122)
Net income before income taxes	10,323	32,711
Provision for income taxes	221	19
Net income	$ 10,102	$ 32,692
Net income per share, basic	$ 0.14	$ 0.39
Net income per share, diluted	$ 0.11	$ 0.34
Weighted-average number of shares outstanding used in computing net income per share, basic	73,629,122	84,230,445
Weighted-average number of shares outstanding used in computing net income per share, diluted	91,449,571	95,457,776

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Financial Statements

(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2021	2022
Cash flows from operating activities		
Net income	$ 10,102	$ 32,692
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Change in fair value of financial instruments	901	18,356
Stock-based compensation	8,622	25,050
Loss (gain) on loan servicing arrangement, net	67	(8,705)
Depreciation and amortization	816	2,781
Non-cash interest expense	18	776
Net changes in operating assets and liabilities:		
Purchase of loans for immediate resale	(1,294,634)	(3,014,594)
Proceeds from immediate resale of loans	1,294,634	3,014,594
Purchase of loans held-for-sale	(18,240)	(443,190)
Principal payments received for loans held-for-sale	2,637	20,328
Proceeds from sale of loans held-for-sale	38,140	50,764
Other assets	(9,988)	7,287
Operating lease liability and right-of-use asset	234	2,584
Accounts payable	(5,807)	3,371
Payable to investors	10,989	32,204
Accrued expenses and other liabilities	4,601	(11,093)
Net cash provided by (used in) operating activities	43,092	(266,795)

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Financial Statements

(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2021	2022
Cash flows from investing activities		
Proceeds from sale of loans held-for-investment	8,329	—
Principal payments received for loans held-for-investment	3,002	9,397
Principal payments received for notes receivable and repayments of residual certificates	3,119	2,067
Purchase of loans held-for-investment	(12,947)	—
Purchase of non-marketable equity security	—	(1,000)
Purchase of property and equipment	(267)	(1,629)
Capitalized software costs	(334)	(3,658)
Net cash provided by investing activities	902	5,177
Cash flows from financing activities		
Proceeds from borrowings	5,831	80,004
Repayments of borrowings	(26,584)	(6,990)
Proceeds from issuance of common stock under employee stock purchase plan	—	4,431
Proceeds from exercise of stock options	1,492	5,626
Net cash provided by (used in) financing activities	(19,261)	83,071
Net increase (decrease) in cash and restricted cash	24,733	(178,547)
Cash and restricted cash at beginning of period	311,333	1,191,241
Cash and restricted cash at end of period	$ 336,066	$ 1,012,694

Reconciliation of non-GAAP financial measures

(in thousands, except ratios)

	Three Months Ended March 31,	
	2021	2022
Revenue from fees, net	$ 116,170	$ 313,982
Income from operations	15,574	34,833
Operating Margin	13 %	11 %
Sales and marketing, net of borrower acquisition costs[1]	$ 3,254	$ 9,635
Customer operations, net of borrower verification and servicing costs[2]	3,126	6,080
Engineering and product development	18,988	49,991
General, administrative, and other	20,019	43,456
Interest income and fair value adjustments, net	(5,175)	3,846
Contribution Profit	$ 55,786	$ 147,841
Contribution Margin	48 %	47 %

1. Borrower acquisition costs were $46.1 million and $123.8 million for the three months ended March 31, 2021 and 2022, respectively. Borrower acquisition costs consist of our sales and marketing expenses adjusted to exclude costs not directly attributable to attracting a new borrower, such as payroll-related expenses for our business development and marketing teams, as well as other operational, brand awareness and marketing activities.
2. Borrower verification and servicing costs were $14.3 million and $42.3 million for the three months ended March 31, 2021 and 2022, respectively. Borrower verification and servicing costs consist of payroll and other personnel-related expenses for personnel engaged in loan onboarding, verification and servicing, as well as servicing system costs. It excludes payroll and personnel-related expenses and stock-based compensation for certain members of our customer operations team whose work is not directly attributable to onboarding and servicing loans.

Reconciliation of non-GAAP financial measures
(in thousands, except ratios)

	Three Months Ended March 31,	
	2021	2022
Total revenue	$ 121,345	$ 310,136
Net income	10,102	32,692
Net Income Margin	8 %	11 %
Adjusted to exclude the following:		
Stock-based compensation and certain payroll tax expenses[1]	$ 8,622	$ 25,929
Depreciation and amortization	816	2,781
Expense on convertible notes	18	1,169
Provision for income taxes	221	19
Acquisition-related costs	1,220	—
Adjusted EBITDA	$ 20,999	$ 62,590
Adjusted EBITDA Margin	17 %	20 %

1. Excludes the amount of employer payroll tax-related expense on employee stock transactions, as the amount is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of our business.

Reconciliation of non-GAAP financial measures
(in thousands, except ratios, and per share data)

	Three Months Ended March 31,	
	2021	2022
Net income	$ 10,102	$ 32,692
Adjusted to exclude the following:		
Stock-based compensation and certain payroll tax expenses[1]	8,622	25,929
Acquisition-related costs	1,220	—
Adjusted Net Income	$ 19,944	$ 58,621
Net income per share:		
Basic	$ 0.14	$ 0.39
Diluted	$ 0.11	$ 0.34
Adjusted Net Income per Share:		
Basic	$ 0.27	$ 0.70
Diluted	$ 0.22	$ 0.61
Weighted-average common shares outstanding:		
Basic	73,629,122	84,230,445
Diluted	91,449,571	95,457,776

1. Excludes the amount of employer payroll tax-related expense on employee stock transactions, as the amount is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of our business.

Key Operating Metrics

Key Operating Metrics

We review a number of operating metrics, including number of loans transacted and conversion rate, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans, and make strategic decisions.

We define Transaction Volume, Dollars as the total principal of loans transacted on our platform between a borrower and the originating bank during the period presented. We define Transaction Volume, Number of Loans as the number of loans facilitated on our platform between a borrower and the originating bank during the period presented. We believe these metrics are good proxies for our overall scale and reach as a platform

We define Conversion Rate as the number of loans transacted in a period divided by the number of rate inquiries received that we estimate to be legitimate, which we record when a borrower requests a loan offer on our platform. We track this metric to understand the impact of improvements to the efficiency of our borrower funnel on our overall growth.

We define Percentage of Loans Fully Automated as the total number of loans in a given period originated end-to-end (from initial rate request to final funding) with no human involvement divided by Transaction Volume, Number of Loans in the same period.

Non-GAAP Financial Metrics

About Non-GAAP Financial Measures

In addition to our results determined in accordance with generally accepted accounting principles in the United States ("GAAP"), we believe the non-GAAP measures of contribution profit, contribution margin, adjusted EBITDA, adjusted EBITDA margin, adjusted net income, and adjusted net income per share are useful in evaluating our operating performance. Certain of these non-GAAP measures exclude stock-based compensation, warrant expenses, depreciation, amortization, and other non-operating expenses. We exclude stock-based compensation and income and expense on warrants and other non-operating expenses because they are non-cash in nature and exclude in order to facilitate comparisons to other companies' results.

We believe non-GAAP information is useful in evaluating the operating results, ongoing operations, and for internal planning and forecasting purposes. We also believe that non-GAAP financial measures provide consistency and comparability with past financial performance and assist investors with comparing Upstart to other companies some of which use similar non-GAAP financial measures to supplement their GAAP results. We believe non-GAAP financial measures are presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with GAAP and may be different from similarly titled non-GAAP financial measures used by other companies.

Key limitations of our non-GAAP financial measures include:

- Contribution Profit is not a GAAP financial measure of, nor does it imply, profitability. Even if our revenue exceeds variable expenses over time, we may not be able to achieve or maintain profitability, and the relationship of revenue to variable expenses is not necessarily indicative of future performance;
- Contribution Profit does not reflect all of our variable expenses and involves some judgment and discretion around what costs vary directly with loan volume. Other companies that present contribution profit calculate it differently and, therefore, similarly titled measures presented by other companies may not be directly comparable to ours;
- Although depreciation expense is a non-cash charge, the assets being depreciated may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA excludes stock-based compensation expense and certain employer payroll taxes on employee stock transactions. Stock-based compensation expense has been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy. The amount of employer payroll tax-related expense on employee stock transactions is dependent on our stock price and other factors that are beyond our control and which not correlate to the operation of the business;
- Adjusted EBITDA does not reflect: (1) changes in, or cash requirements for, our working capital needs; (2) interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces cash available to us; or (3) tax payments that may represent a reduction in cash available to us;
- The expenses and other items that we exclude in our calculation of Adjusted EBITDA may differ from the expenses and other items, if any, that other companies may exclude from Adjusted EBITDA when they report their operating results.

Reconciliation tables of the most comparable GAAP financial measures to the non-GAAP financial measures are used in this presentation.

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Thank you