



Date:

Team Name	Dream Team	Analyst Name	Pearline, Sidhaarth, Wei Meng
Company Name	Upstart Network, Inc	Ticker	UPST (NASDAQ)
Current Price	92.72 USD	60m Target Price	167.10 USD
Potential Upside (%)	80%		

### Summary

- Lack of credit availability for good borrowers and lack of good information and verification process of these borrowers' creditworthiness
- Business centered around closing this gap using data algorithms utilizing vast amounts of borrower data, with a proven track record of increasing loan approvals while drastically reducing defaults

### Business Overview

There is a lack of credit availability for good borrowers. Since the 1980s, the FICO score remains the standard in determining consumer credit risk. However, many decent borrowers do not have the score for various reasons, (for e.g. you need to have an account that reports to a credit agency, with activity on that account but many people who use their debit cards for purchases do not have a credit score and find qualifying for reasonable mortgage or auto loans impossible). While there have been attempts to improve this by drawing on other databases such as the utilities bill payments, there are still many possible limitations such as the potential for missing or incorrect info, which happens quite frequently. The stats are in line with this. 80% of borrowers have never defaulted on a loan. Yet only 48% of borrowers have access to prime credit.

This gap implies that many borrowers in the market could be at a lower credit risk and might be overpaying for credit access. For banks, this is a great chance to capture market share and solve a problem for borrowers of getting access to credit on the terms and pricing they deserve, if only they could somehow figure out how to get a better picture of who deserves what.

This is where Upstart comes in. Upstart has developed a prediction model to determine the creditworthiness of prospective borrowers using traditional credit variables such as income, as well as 1600 other variables such as work history, past purchases, GPA, college attended and interaction with application forms to suss out a more accurate image of a person's credit worthiness from the perspective of the banks.

This solution is delivered in the form of an API for the banks to automate personal loans, and nearly 70% of these loans are instantly approved. The results are clear as well, with Upstart providing 27% more approvals than traditional models, while experiencing 75% fewer defaults at the same approval rate.



## Investment Analysis

### **Proven track record and clientele base**

Upstart has more than 30 banking partners and counting. 4 Upstart partners have entirely stopped their reliance on FICO scores for lending, choosing to completely rely on Upstart's algorithm instead

### **Large and meaningful data moat which can only improve over time**

Upstart's data mining capabilities and modern systems allow it to swiftly draw links between variables and a borrower's actual record of loan repayments, continuing to further improve its algorithms overtime

As Upstart partners with additional banks and those banks originate more loans on Upstart's platform, this data moat will only get better over time leading to improved efficiency in borrower selection and better loss ratios

Additionally, Upstart's customers are primarily small regional banks that typically don't have access to in-house AI capabilities and data as their customer base is quite small. Overtime, compared to their own systems, Upstart can only seem increasingly attractive to them.

### **Massive market opportunity that is under-penetrated**

The market for unsecured personal loans is close to \$90B. Upstart's value lies in helping lenders gain market share through their data for the borrowers who can access prime credit. Upstart has only issued \$8B in loans in the last year, which is less than 10% of the market.

And that is just the beginning. A potentially much larger market opportunity lies in the auto loan market, valued at \$672B. Upstart made its first auto loan in Sept 2020, and has been working on increasing its presence there. Upstart is also targeting entering the mortgage lending market next.

## Risk

- Limited operating history
  - Short history of the company results in greater uncertainty
- Concentration risk (bank partners)
  - Top customer (Cross River Bank) accounts for 58% of revenue, 2nd 21% of revenue
  - While Upstart is working towards diversification, will take time for loan volume from these lenders to reduce customer concentration and risk for the business
- Concentration risk (loan origination traffic)
  - Heavy reliance on Credit Karma for referrals
  - Credit Karma was acquired by Intuit, which is the parent company of QuickBooks, Mint.com and TurboTax (lots of financial data to analyze on its hands)
  - Moving towards more direct acquisition channels
- Cyclical nature of the business
  - Upstart depends on loan origination of its banking partners for revenue



- Loans are cyclical in nature and dependent on the general economic environment, such as overall interest rates
- a recession or a significant increase in interest rates could reduce loan volume
- Inability to improve AI Model
  - Ability to attract clients at the moment is heavily dependent on its AI model
  - Any error or inaccuracy from its AI models might result in Upstart's clients incurring huge losses, resulting in inability to acquire new customers in the future
  - Banks might be able to create their own department to replace Upstart