



Multibagger Portfolio: Upstart Holdings

ISIN: US91680M1071

Founded in 2012, Upstart is a California-based company listed on the stock exchange since late 2020. It provides a platform powered by big data and artificial intelligence that grants users access to loans with favorable conditions. By working with numerous banks and credit unions, their default risk is reduced, creating a win-win situation for all parties involved. Upstart has carved out a niche in the credit industry. The platform's uniqueness lies in its income and default prediction model, which assesses the creditworthiness of borrowers. In addition to traditional criteria such as monthly income, educational variables such as major, university attended, and career trajectory are also considered.

The software uses artificial intelligence to learn every time a borrower makes a payment or defaults, with management claiming that it can predict borrower risk much more accurately than traditional credit models. This is a significant competitive advantage in the fiercely contested industry. Upstart initially started by assisting its bank partners in issuing personal loans but has gradually expanded into other areas. With the acquisition of Prodigy, Upstart is now also present in the car insurance market. The scalability opportunities are enormous, meaning the model can be used in many other areas, and revenue can grow faster than costs. However, Upstart is not the only provider in the market.

Upstart generates most of its revenue from fees that banks pay as commissions for the loans facilitated. Upstart has been profitable for most of the quarters that it has been publicly listed and management's intent in the near-term is to return to profitability as quickly as it possibly can. This is one of the management's priorities in 2023. Most companies find it challenging to control costs during high growth. The rise in interest rates has not been favorable for the company. However, if the company manages to survive this challenging market phase, it could present an excellent speculative opportunity.