Operator 0s

As a reminder, today's program is being recorded. Now I'd like to introduce your host for today's program, Matthew Moon, Vice President Investor Relations. Please go ahead, sir.

Matthew Moon VP of Investor Relations, Wealthfront 11s

Good afternoon, everyone, and thank you for joining us today to discuss Wealthfront's fiscal second quarter 2027 financial results, which reflect the quarter ended July 31st, 2026. On the line are David Fortunato, our Chief Executive Officer and President, and Alan Imberman, our Chief Financial Officer and Treasurer. After prepared remarks, we will open the line for Q&A. During the course of today's call, we may make forward-looking statements as defined under applicable securities laws. Forward-looking statements are subject to risks and uncertainties. The company can give no assurance that they will prove to be correct. To better understand the risks and uncertainties that could cause actual results to differ, we refer you to the documents that Wealthfront files with the Securities and Exchange Commission, including our most recent Form 10-Q. Our discussion today will include certain non-GAAP financial measures.

Matthew Moon VP of Investor Relations, Wealthfront 59s

These non-GAAP financial measures should be considered in addition to, not as a substitute or in isolation from, GAAP measures. Reconciliations of non-GAAP financial measures to comparable GAAP measures can be found in our press release accompanying this call, which is posted to our investor relations website at ir.wealthfront.com. With that, I will now turn the call over to David.

David Fortunato CEO and President, Wealthfront 1m 20s

Good afternoon, everyone. In our fiscal second quarter 2027, we continued to deliver on our objective of becoming the leading tech-driven platform for digital natives seeking to turn their savings into wealth. Before I get into a review of our last quarter, I want to remind everyone of our unique business model and development philosophy. We believe we make the best practices of personal finance accessible at low fees through automation and intuitive and convenient through user-friendly design. At scale, this drives high margins, allowing us to share savings with clients, creating trust, which drives add-on deposits, new product adoption, and low-cost word-of-mouth growth, which once again drives high margins. This flywheel enables us to enhance our core cash management and Investment Advisory product offerings and build new products like Wealthfront Home Lending, which helps our clients save more, earn higher returns on their savings, and borrow at lower rates.

David Fortunato CEO and President, Wealthfront 2m 15s

In other words, grow their wealth. We continue to believe that the best way to build deep, long-term client relationships is to delight clients by offering them more value than they can find anywhere else and focusing on their long-term financial outcomes. This informs our product development strategy and keeps us focused on our roadmap regardless of short-term market conditions. For example, this past quarter, we expanded availability of Wealthfront Home Lending and further automated key parts of the flow. We added Custodial Accounts to our broad suite of family wealth management offerings and started select client testing of an initial AI solution that helps clients size and set their emergency funds. We don't attempt to time the market or build products that take advantage of speculative fads, and each year we continue to increase the value we provide to clients.

David Fortunato CEO and President, Wealthfront 3m 7s

I'm proud to announce this focus allowed us to surpass $100 billion in total platform assets as of the end of August. As I reflect on this achievement, I could not be more grateful for our clients who have entrusted us to help them achieve their financial goals and proud of our team that have been instrumental in getting us to this point. Digital natives, defined as those born after 1980, have faced significant economic headwinds throughout the years, like the 2008 financial crisis and the COVID-19 pandemic, and they continue to navigate inflation, housing affordability, and a changing labor market. Despite these challenges, we've both advised and observed our clients remain resilient and focused on intelligent savings and investing strategies. An analysis of clients who have been saving and investing with Wealthfront from January 1st, 2021 to January 1st, 2026, showed impressive growth across their accounts.

David Fortunato CEO and President, Wealthfront 4m 2s

Of these clients, millennials have, on average, nearly tripled their wealth held on our platform over that timeframe, and Gen Z clients have, on average, quintupled their wealth held on our platform over that timeframe. Across the same cohort of clients, the number of millennial clients who have over $1 million on our platform has increased by over 500%. We aspire to be the modern wealth manager for digital natives, replacing financial uncertainty with best practice investing, automated habits, and tax strategies that maximize what clients keep. By continuing to ship products aligned with our clients' interests, we remain confident in our ability to deliver on this aspiration.

David Fortunato CEO and President, Wealthfront 4m 45s

Turning to the quarter, total platform assets grew 2% quarter-over-quarter and 12% year-over-year to $99 billion at quarter end, driven by Investment Advisory assets up 5% quarter-over-quarter and up 30% year-over-year to $54.1 billion. Overall net deposits were $1.1 billion in the quarter, including $1.1 billion from Investment Advisory, which incorporated the second-best quarter of net cross-account transfers from cash to invest in the company's history. This is a continuation of our intentional strategy to drive cross-product flows during transition environments like the one we are in today and reflects the intentionally hedged business model we constructed that should drive client asset growth through most, if not all, macro environments. Transition environments are periods where prospect and client sentiment shifts, often driven by changes in the macro environment and investing sentiment.

David Fortunato CEO and President, Wealthfront 5m 40s

This transition environment began during the rate cuts towards the end of calendar year 2025 and has persisted due to continued strong market performance. Helping clients adopt a broader range of products is vital to continuing asset growth through any environment, including during transition environments like the one we are in today. Most of our annual client cohorts have shown broad-based Investment Advisory adoption, supporting year-to-date net asset growth on the platform. Our 2023 and 2024 annual cohorts have lagged behind. The behavior of the 2023 and 2024 annual client cohorts is not entirely a surprise, as a large majority of these clients hired us during the recent period where rates peaked and the Cash Account was particularly attractive. We've had a shorter period of time to drive cross-product adoption for these cohorts and have been focused on doing so over the past year.

David Fortunato CEO and President, Wealthfront 6m 33s

We've been quite successful in driving cross-product adoption. However, these client cohorts have been investing at external brokerages as well. The result has been cash asset flows in a dynamic equilibrium, with these two client cohorts underperforming, but more than offset by the remaining client cohorts performing better and contributing to overall asset growth. We have focused our recent incentives and new product offerings on improving adoption of investing products and specifically focused on the 2023 and 2024 client cohorts. Our cross-product adoption incentives have shifted the behavior of some clients, and new account types like our tax-aware Custodial Account have helped broaden client relationships. These efforts have helped improve the 2023 and 2024 annual cohort performance, and the current year client cohort performance has been consistently strong.

David Fortunato CEO and President, Wealthfront 7m 24s

The result has been improving cash net deposits in July and August, including the best month for cash net deposits since March of this year. There's more for us to do, and we will be better positioned in the future. I'm happy to share that in October, we will complete the transition of the Stock Investing Account to the broker-dealer and rename it the Wealthfront Brokerage Account. This enhancement has been in the works for some time, and we expect the Wealthfront Brokerage Account to benefit us in periods of elevated self-directed investing sentiment like the one we are in today by providing a familiar experience to beginner investors and increasing asset consolidation from our existing clients. We shipped a variety of other new products and feature enhancements in the quarter as well.

David Fortunato CEO and President, Wealthfront 8m 10s

We launched a Custodial Account in June, an expansion of our suite of family-oriented wealth management offerings that complement our existing 529 joint and trust account offerings. Our Custodial Account provides a flexible way for parents to save for their child's future and is one of the only Custodial Accounts in-market designed to automatically lower a child's future tax burden through Tax-Gain Harvesting. Tax-Gain Harvesting is designed to take advantage of the favorable federal tax treatment available to children, helping them realize up to $1,350 in tax-free growth each year without requiring a federal tax return filing, increasing their cost basis, thereby reducing the amount of realized gain when the investment is later sold. Thanks to this strategy, when the funds are eventually withdrawn by the child years later, they have less taxes to pay, so they can keep more of their returns.

David Fortunato CEO and President, Wealthfront 9m 6s

We continue to see our digital native clients progress into the home buying phases of their lives. In May, we launched general availability of Wealthfront Home Lending in Texas, and in August, we launched general availability in California. We plan to enter Washington, Florida, Illinois, and Oregon in the coming months as we continue our measured rollout. Recall, Wealthfront Home Lending intends to deliver a better digital home mortgage experience with mortgage rates at least 50 basis points below the national average. We are proud to have delivered on this mortgage rate objective of our value proposition on an average basis and have made excellent progress on improving the digital home mortgage experience. We launched a self-service scenarios tool that allows borrowers to explore custom loan configurations and lock in their new rate autonomously online, all without the back and forth with a loan officer.

David Fortunato CEO and President, Wealthfront 10m 0s

We launched a smarter restricted stock unit income verification process that improves loan officer efficiency and allows borrowers to get an accurate rate quote much more quickly and allows homebuyers to get a faster pre-qualification. We also automated the pre-fill of application intake fields using both Wealthfront and linked account data. These enhancements have led to improved automated decisioning. We have more to improve upon and automate, but they reflect a strong progress towards our vision of delivering the first mortgage product designed to be handled entirely in a mobile app. Near term, we expect to see many more examples of clients executing on self-service loans. As signaled last quarter, we recently began testing our own AI solutions with current client experimentation centered on an LLM tool that is initially focused on helping select clients choose the appropriate amount and then subsequently set or adjust an emergency fund directly in-app.

David Fortunato CEO and President, Wealthfront 11m 0s

We ultimately envision clients coming to Wealthfront and using AI tools such as this one to answer all of their financial questions. In order for us to achieve that goal, we must ensure that the solution builds trust to reach that critical point of client confidence. We expect to have more to share with you on this in coming quarters as we progress towards this goal. With that, I will turn it over to Alan to go over the financials.

Alan Imberman CFO and Treasurer, Wealthfront 11m 26s

Thanks, David. Starting with our end-of-quarter asset and client data. Total platform assets grew 12% year-over-year to $99 billion, with Investment Advisory assets up $54.1 billion, up 30% year-over-year, and cash management assets up $44.9 billion, down 4% year-over-year. We ended the quarter at 1.1 million funded clients, up 14% year-over-year, and 1.97 million funded accounts, up 15% year-over-year, reflecting 1.3 funded accounts per funded client. Moving to the income statement, revenue for the last quarter came in at $91.9 million, up 1% year-over-year. Cash management revenue was $61.8 million, down 10% year-over-year, primarily due to a lower annualized cash management fee rate of 55 basis points, down 6 basis points year-over-year.

Alan Imberman CFO and Treasurer, Wealthfront 12m 31s

Average cash management balances, measured as the simple average of beginning and end of quarter figures, was also down 1% year-over-year to $44.9 billion. The year-over-year decline in the annualized cash management fee rate was driven primarily by the fee rate loss in converting APYs to an APR, given the lower federal funds rate, as well as higher overall impact of APY boosts from client incentives. To help inform your models, the run rate annualized cash management fee rate at the end of August was 55 basis points. Investment Advisory revenue was $28.8 million, up 31% year-over-year, primarily due to average Investment Advisory balances of $52.9 billion, up 35% year-over-year.

Alan Imberman CFO and Treasurer, Wealthfront 13m 23s

While the annualized Investment Advisory fee rate of 22 basis points was down a rounded one basis point versus the same period last year due to the impact of one-time client incentives tied to the launch of Custodial Accounts. Asset growth was driven by both strong market and net deposits over the trailing 12-month timeframe. Gross profit was $81.1 million, down 1% year-over-year, reflecting a gross profit margin of 88%, down roughly 1 percentage point year-over-year, due in part to the higher data cost, higher money movement costs, and start-up expenses associated with Wealthfront Home Lending.

Alan Imberman CFO and Treasurer, Wealthfront 14m 7s

Total GAAP expenses of $75.1 million were up 45% year-over-year, which recall, does not incorporate an apples to apples comparison of share-based compensation, as share-based compensation prior to the IPO did not incorporate dual trigger RSU expense given that the second of its two dual triggers conditions was not satisfied until the IPO occurred. Adjusted operating expenses, that is, expenses excluding share-based compensation, were $58.7 million, up 17% year-over-year, due primarily to higher adjusted product development expense. The increase in adjusted product development expense was due to higher personnel-related expenses, including from increased headcount associated with the launch of Wealthfront Home Lending. Looking to next quarter, we expect roughly $3 million-$3.5 million in one-time employer tax expense tied to option exercises for former employees ahead of their exercise deadline in September.

Alan Imberman CFO and Treasurer, Wealthfront 15m 11s

The September deadline was contractually set for nine months after our IPO, which recall occurred back in December 2025. Adjusted EBITDA of $38.1 million was down 15% year-over-year and reflected an adjusted EBITDA margin of 41%, down eight percentage points year-over-year, primarily reflecting lower cash management revenue due to a lower cash management fee rate given the previously noted APY to APR conversion and higher client incentives, as well as continued investments, including into the measured rollout of Wealthfront Home Lending. Despite these investments, we continue to demonstrate significant operational and financial discipline, delivering a Rule of 40 metric of 42 for the quarter. This is our 16th consecutive quarter exceeding the Rule of 40 and underscores a business model designed to successfully and consistently balance top-line growth with the structural efficiencies of our automated platform.

Alan Imberman CFO and Treasurer, Wealthfront 16m 12s

GAAP diluted net income was $17.6 million, and GAAP diluted earnings per share was $0.10 a share. Net cash provided by operating activities was $47.3 million, and adjusted free cash flow was $28.3 million in the quarter, with the difference in values driven by the change in temporary client funding receivables related to our initial funding of clients' early direct deposits and instant withdrawals between the two reporting dates. Recall, this adjustment to our free cash flow normalizes for the change in these receivables from period to period, as these end-of-period balances can fluctuate due to factors such as the day of the week a given quarter ends. Importantly, these actions provide clients access to their funds more quickly, and in the case of early direct deposit, generates additional days of interest income for our clients.

Alan Imberman CFO and Treasurer, Wealthfront 17m 10s

Adjusted free cash flow conversion ratio, that is, adjusted free cash flow as a percentage of adjusted EBITDA, was 74%. Recall, we pay out 35% of accrued annual bonuses, cash bonuses to our employees each July, with the remainder paid each January. Our trailing 12-month adjusted free cash flow conversion ratio, which normalizes for seasonality, was 88%. During the fiscal second quarter 2027, we repurchased 3.3 million shares in the open market for approximately $30 million as part of our share repurchase program. We're comfortable deploying our cash for share repurchases because of our robust free cash flow generation, our debt-free capital structure, as well as the multi-decade opportunity to compound wealth with new and existing clients who are in the wealth accumulation phase of their lives.

Alan Imberman CFO and Treasurer, Wealthfront 18m 6s

Even with the strong repurchase activity, we ended the quarter with cash and cash equivalents of $453 million, which excludes the receipt of temporary client funding receivables we just mentioned as a part of the adjusted free cash flow reconciliation. As a reminder, our long-term capital priorities are to invest in organic product-led growth, including in infrastructure and automation, to evaluate opportunities to repurchase shares, and to assess M&A with a preference to build versus buy. Any remaining capital would be added to our surplus reserves in order to enhance resilience and durability. Looking to recent trends, as David mentioned, we surpassed $100 billion in total platform assets for the first time in August, doubling total platform assets in less than three years. We ended August at $100.9 billion in total platform assets, including $55.8 billion in Investment Advisory assets and $45.1 billion in cash management assets.

Alan Imberman CFO and Treasurer, Wealthfront 19m 14s

Total net deposits in August were $605 million, which includes the impact of five full weekends in the month versus the typical four full weekends in a month. That's important because we only recognize withdrawals on weekends to satisfy client spending needs and instant withdrawals, which drives client delight but does impact monthly cash net deposit figures on the margins. Also, as David mentioned, August was the best month for cash net deposits since March of this year, and August was the best month for total net deposits since August of 2025. Asset-weighted cross-product adoption continued increasing, up a half a percentage point month-over-month to under 64%, reflecting our continued success in driving cross-product adoption. While we remain in a dynamic macro backdrop, we have built a diverse product suite that allows our clients to build wealth through a multitude of environments.

Alan Imberman CFO and Treasurer, Wealthfront 20m 16s

We make money when our clients do, and our product suite, as well as our continued investments, put us in a strong position to continue to grow with our clients over the long term. With that, let's move to Q&A.

Operator 20m 32s

Certainly. Our first question for today comes from the line of Devin Ryan from Citizens Bank. Your question, please.

 **Devin Ryan** Analyst, Citizens Bank 20m 43s

Good afternoon, David and Alan. Thanks for taking the question. First question just on the cash deposit momentum you are seeing. Obviously, nice to see some improvement in July and then further in August. I know summer can kind of be a heavier cash spending period, and then you also mentioned the weekend dynamic as well. A couple of things that maybe could, in theory, be headwinds, but you saw some momentum there. It would be good to get a sense of kind of what's driving that or if you can just give us a little more granularity on what you were seeing in the last couple of months here, what you are seeing kind of with customer behavior, kind of the competitive dynamic, and then just anything else you can share just on expectations broadly for cash management moving forward in terms of deposits. Thanks.

David Fortunato CEO and President, Wealthfront 21m 26s

Yeah. Thanks for the question. In the script, I talked a little bit about the 2023 and 2024 cohorts. We noticed something interesting recently in the cohort analysis, which was the 2023 and 2024 cohorts, which hired us during a kind of peak interest rate period, were adopting investing with Wealthfront at a slightly lower rate than other cohorts. We focused our incentives on those cohorts. We focused some of the new product launch merchandising at those cohorts and have seen improvement in cross-product adoption, which has helped keep those assets on the platform and retain more of those assets. I think what I said was we've kind of been in a dynamic equilibrium with some cash outflows from the 2023 and 2024 cohorts, and then inflows from both the 2026 new client cohort and other cohorts roughly breaking even.

David Fortunato CEO and President, Wealthfront 22m 28s

We've seen a little bit of improvement in the 2023 and 2024 cohort as the new product launches and incentives have worked. That's led to an improving backdrop in July and August. I don't think we're always going to share kind of the cohort analysis, but do think that it's useful to help underscore the sort of trend differences that we saw over the summer, which you're right, is not normally a period of kind of large deposit or withdrawal movement, which tends to be a slower period.

Devin Ryan Analyst, Citizens Bank 23m 2s

Yeah. Got it. Thanks, David. Really interesting. Maybe this is related, but just on the Wealthfront Brokerage Account and kind of the launch in October, and obviously, I know that's intended to capture more self-directed assets currently held elsewhere. Are there capabilities with that that will be different from the existing Stock Investing today? What client behavior should we think about with that offering relative to maybe what you're currently seeing, I guess, and also just other capabilities that you expect to maybe add on over time?

David Fortunato CEO and President, Wealthfront 23m 41s

Yeah, sure. Right at the beginning, it gives us the opportunity to offer more order types and a larger list of investable securities, which we think is important and sort of moves us closer to what this generation has come to expect of self-directed offerings. There's different constraints on the account that we have to put if it's an advisory product, and so putting it in the broker-dealer and making them kind of pure brokerage accounts, I think gives us the opportunity to really present an account type that's more what these types of investors are used to. In periods of strong self-directed interest, the reason we built Stock Investing in the first place is because we wanted to have a credible product offering in the space to help those folks. The way that we're thinking about it is a little bit different than others are thinking about it.

David Fortunato CEO and President, Wealthfront 24m 31s

We're really focused on long-term investing outcomes. I think that'll inform the products that are relevant that we want to add to our account and might differ a little bit from other products in the space. We want to build the best place for buy and hold investing generally across our managed offerings and self-directed offerings. We will continue to add to the Wealthfront Brokerage Account for a lot of time going forward in the future. It's going to be an area of continued investment for us. But it is going to have sort of a different priority set than you might see from other digital brokers.

Devin Ryan Analyst, Citizens Bank 25m 13s

Yep. Understood. Okay. Great. I will leave it there, but thanks for answering the questions.

David Fortunato CEO and President, Wealthfront 25m 18s

Thank you.

Operator 25m 20s

Thank you. Our next question comes from the line of Ken Worthington from JPMorgan. Your question please.

Michael Cho Analyst, JPMorgan 25m 27s

Hi, good afternoon, guys. This is Michael Cho in for Ken. I just wanted to touch on mortgage. Dave, you talked through the rollout, and you listed another three states coming in the next few months. Just wondering if you could just provide any thoughts or color on recent volume trends or exit trends that you are seeing in August and any sort of early economics that you might be able to share with us as the mortgage rollout continues.

David Fortunato CEO and President, Wealthfront 25m 55s

Yeah. Thanks for the question. I think we're pleased with the early progress of the rollouts in Colorado, Texas and California. The next priorities that we discussed, I think four states, Washington, Oregon, Illinois and Florida. The core goal of the mortgage product is really to use technology to build a better experience and deliver a lower rate to our clients. I think we've been successful at doing that. There's a lot left for us to do. We're going to focus our investments on continuing to deliver the best client experience. One of the things that I guess I would say is as volume, I think this is supported by industry data.

David Fortunato CEO and President, Wealthfront 26m 38s

As volume in the industry declines, the median buyer of a home tends to get a little bit older and a little bit wealthier because as rates go up, housing affordability becomes tighter. What we've seen is as we expand in states, we've still been able to grow volume, mostly through eligibility. We are working against the headwind of higher rates mean less housing affordability. What we really see is an opportunity to take a long-term perspective and invest in the digital experience at better margins, being able to share that savings with clients and fight against that kind of rate housing unaffordability dynamic. I think we're starting to see the progress of this automation already.

David Fortunato CEO and President, Wealthfront 27m 28s

We've been able to automate away some of the third-party vendors to own more parts of our flow and improve the efficiency that'll help us continue to bring rates down over time. The dynamic scenarios feature is an example of having clients do more self-service, which actually leads to both a better client experience as well as lower operational costs. We're going to stay laser-focused on those dynamics and continuing to build a better experience. We think that as we expand, we'll have the best pricing offering in the space for our target clients. That'll give us an advantage in the future.

David Fortunato CEO and President, Wealthfront 28m 6s

Obviously, we are impacted by the larger rate dynamic, and that's one of the reasons we like having a business model that includes cash and includes investing, and we can build a larger relationship with clients and be there for them when they are ready to buy a home.

Michael Cho Analyst, JPMorgan 28m 23s

Great. No, I appreciate all the color, David. Just a follow-up, separate topic. You talked through kind of the new product pipeline in terms of. You've got the brokerage launch coming as well. But the industry headlines have been kind of taken a bit with tax-aware investing has been making quite a bit of headlines. Wealthfront has been doing Direct Indexing, Tax-Loss Harvesting for many years. Just kind of curious, I do not know if you have considered or if it is in the pipeline in terms of maybe there is a long short product you might consider for your pipeline from a tax-aware perspective. Thanks.

David Fortunato CEO and President, Wealthfront 29m 0s

Yeah, no, great question. Long short is certainly something we are interested in and continue to look into. I do not have anything specific to share at this time, but I will say that tax-aware investing is one of the things and through Direct Indexing and Tax-Loss Harvesting, the Custodial Account tax optimization that exists has been a core focus for us and a core value driver to clients. So building that offering or building tax-aware related offerings at low cost, and being able to provide them to clients with low minimums is sort of how we have built our investing business, and I would expect us to continue our focus on that as our Investment Advisory product offerings and cash management offerings expand over time. It is certainly an area of interest, but nothing specific to say at this time.

Michael Cho Analyst, JPMorgan 29m 54s

Great. Thank you.

Operator 29m 56s

Thank you. Ladies and gentlemen, we ask that you please limit yourself to one question and one follow-up. Our next question comes from the line of Ryan Tomasello from KBW. Your question please.

Ryan Tomasello Analyst, KBW 30m 9s

Thanks, everyone. With the markets pricing in higher odds of a rate cut here over the near term, I was hoping you can talk about how you would expect your user base to respond to a potential cut here of 25 basis points if that's meaningful enough. I'm sorry, a hike of 25 basis points, and if that's meaningful.

David Fortunato CEO and President, Wealthfront 30m 32s

I was wondering if you could do something we didn't.

Ryan Tomasello Analyst, KBW 30m 37s

Sorry. Hike, is that meaningful enough, you think, to drive a material change in the deposit trends on the cash side of the business? On a related topic, if you can just talk about how you're thinking about promotions and incentives in the back half of the year, particularly to capitalize on a potential rate hike. Thanks.

David Fortunato CEO and President, Wealthfront 30m 58s

Yeah, thanks for the question. History has told us that rate increases have been beneficial for our cash net deposit trajectory. That said, it's not only the direction, but also larger macro conditions that can influence cash net deposit flows, and the comparative interest in cash versus investing. In the last significant rate increase cycle of 2022, 2023, the U.S. equity market performed less well than it has in recent history, and so we'll have to see how that plays out this time. On sort of trends moving forward, like June, September is a quarterly income tax payment month. For some of our clients, that can impact figures on the margins as well. I think sort of my summary would be history tells us that rate hikes are good for cash net deposits, but there are some other factors that will be different.

David Fortunato CEO and President, Wealthfront 32m 7s

We don't know exactly how that's going to play out. We've stayed focused on building a hedged business model that can grow with cash, grow with investing, and now grow with mortgage, regardless of where the macro environment goes. On the cross-product adoption incentives, we've had roughly 7,500 new account openings attributable to the incentive. The strongest benefit that we've seen is from new to Wealthfront clients who've adopted the incentive and really broadened and deepened their relationship with Wealthfront more quickly than prior cohorts. We think that's a benefit to the clients because it helps them build wealth for both cash and investing, and in a more automated way. It's obviously a benefit to Wealthfront because we get to help them manage more of their money. The subset of clients that have adopted this incentive is quite attractive.

David Fortunato CEO and President, Wealthfront 33m 7s

The unit economics of the incentive are very good. We see higher average cash balances, higher propensity to refer new clients to our platform, and slightly larger investment net deposits when compared to similar new clients that have not adopted the cross-product adoption incentives that we've had. We're pleased with the early results. It's an area that we're going to continue investing in, and see if we can continue to drive new client adoption of these incentives to grow relationships more quickly.

Ryan Tomasello Analyst, KBW 33m 45s

Looking at the Investment Advisory fee rate, I realize you disclose the fee rate in the press release, but if I calculate that using a monthly, on a monthly average asset basis, it implies about a 2% decrease in the fee rate from last quarter, from 21.7 basis points to 21.3 basis points. That's an acceleration from the rate of decline that we've been seeing in recent quarters. Can you just talk about the drivers there, I assume from incentives and maybe adoption of lower fee rate products? Just overall, how you're thinking about the trajectory of the Investment Advisory fee rate over time as adoption of other products in that bucket widens.

Alan Imberman CFO and Treasurer, Wealthfront 34m 37s

Hey, Ryan, it's Alan. I'll take this one. What we talked about in the prepared remarks around the fee rate was there was a special one-time incentive that went along with the launch of the Custodial Account that was a $100 deposit into a Custodial Account. That's mainly what you're seeing in terms of the fee rate decline for this quarter. On a go-forward basis, I would say that our philosophy is it's still the best interest of our clients to be in our Wealthfront portfolio, the automated index investing account. Regardless of what kind of door clients come in, I think, one, they'll most likely have some type of perhaps experience with individual stocks that would lead them to decide to automate and diversify, and/or as they become more sophisticated, they'll also self-select that.

Alan Imberman CFO and Treasurer, Wealthfront 35m 38s

So we see that continuing to be the primary weighting of our assets over the long term and keeping that fee pretty stable on the Investment Advisory side. That is our go-forward plan, and that is what we have seen. It has been fairly stable, and we launched Stock Investing, Direct Indexing, Bond Ladder, all these things over the last three years. And we have still seen a pretty stable Investment Advisory fee rate due to the fact that, again, a majority of our clients still select the Wealthfront portfolio or eventually get their money in there.

Ryan Tomasello Analyst, KBW 36m 14s

Great. Thank you.

Operator 36m 17s

Thank you. Our next question comes from the line of Dan Perlin from RBC Capital Markets. Your question, please.

Dan Perlin Analyst, RBC Capital Markets 36m 25s

Thanks. Good evening, everyone. I wanted to just revisit the cross-asset adoption here again. I think it seems like it has been trending, I do not know, 50 basis points, kind of from the first quarter to the June update into kind of what I think I just heard. I think I also heard you guys talk about adding, I do not know, 7,500 new accounts. As a result of the incentives. So is that about half of the incremental account growth? If it is, what else is driving that as you see it within your platform?

David Fortunato CEO and President, Wealthfront 37m 2s

I will start and then see if Alan wants to add anything. When we talk about new account growth associated with the incentive, we are talking about folks who already have Wealthfront accounts adding an additional account. That will be different than the new clients that are disclosed in the monthly metrics. I do not think we disclose the total account numbers. What we are seeing is it is a really good way to get the types of clients that we want to serve and are our best clients to both set up some type of recurring deposit or direct deposit into the platform and to diversify the relationship that we have with them. We have seen that take different forms over the course of the quarter as the macro environment has shifted a little bit.

David Fortunato CEO and President, Wealthfront 38m 0s

We have seen some elevated inflows into bond products in the last month or two. As the yield curve has normalized, the bond products have become net slightly more attractive, and getting additional adoption of those products has been helpful. We have also seen S&P 500 Direct do well. The kind of core leader of our diversified Wealthfront portfolio has been a consistent kind of high asset product and an area of focus. I think you cannot do the kind of straight comparison of new accounts to new clients, but the cross-product adoption has been good. The one thing I would say about our asset-weighted cross-product adoption numbers is it has gotten better in the last quarter, but it actually is because investment assets have increased, the percentage of assets in investment-only products has also increased.

David Fortunato CEO and President, Wealthfront 39m 7s

Those are clients that tend to be tenured clients and only have adopted investment accounts from Wealthfront. As those clients continue to add to their accounts and grow with the market, we have actually seen the percentage of invest-only assets grow as well. Asset-weighted cross-product adoption for both cash and invest has gone up in the quarter, but maybe less than you might expect because invest-only has grown too.


Dan Perlin Analyst, RBC Capital Markets 39m 34s

Yep. That is a good point of distinction. Just quickly on the competitive environment, anything that you would call out relative to what you have seen over the past several months? I know in prior quarters you kind of alluded to the fact that it felt like maybe it had ticked up a little bit, but I am not sure if that is a trend that you are continuing to see from here. Thank you.

David Fortunato CEO and President, Wealthfront 39m 52s

Yeah. Thanks. The primary competitor that we have for new clients is the sort of underconsumption of high-quality financial products. These might be folks that have a bank account but aren't doing much else with their money. Helping them earn more on their savings and invest for the long term is really the focus. We benefited from primarily client referrals as a way to grow new clients, but we've also benefited, as we've talked about in past quarters, from positive recommendations or referrals from large language models that are unsolicited, unadvertised. That's been beneficial. What we've seen, I think is, the summer is normally a quiet period. We've seen the effects of the quality of the products and the distribution that we have that's focused on our clients fighting against what's normally a summer slowdown.

David Fortunato CEO and President, Wealthfront 40m 58s

It's something that we'll continue to watch and see how it evolves, but we've been, I think, pleased with the new client adds over what's normally a quiet summer period.

Dan Perlin Analyst, RBC Capital Markets 41m 7s

That's great. Thank you.

Operator 41m 10s

Thank you. As a reminder, ladies and gentlemen, if you do have a question at this time, please press star one one on your telephone. Our next question comes from the line of Alex Markgraff from KBCM. Your question please.

Alex Markgraff Analyst, KBCM 41m 23s

Hey, guys. Thanks for taking the question. Maybe a couple from me. First, great to see the Custodial Account launch. I guess, David, I'm curious if you have any sort of data points you might be able to share about sizing the opportunity within the existing base, or any observations on early traction with that account would be helpful. Then I have a follow-up.

David Fortunato CEO and President, Wealthfront 41m 47s

Yeah, I think the biggest surprise for us was the number of folks that opened multiple Custodial Accounts. Maybe we shouldn't have been surprised, but we did see a number of clients open more than one Custodial Account for multiple children. I think the interest was relatively broad-based. The incentive that Alan Imberman talked about, I think, got that product in front of a lot of clients. And we saw relatively sophisticated clients adopt the product because of their understanding of the value of the favorable tax treatment for doing Tax-Gain Harvesting to be able to reduce the cost of or taxes that the client ultimately pays when their child needs the money in the future.

David Fortunato CEO and President, Wealthfront 42m 41s

I don't think that Custodial Accounts is ever going to be a significant asset growth driver, but it's a really important, I think, broadening of relationship. When you look at the range of products that we've built over the last number of years to support families growing their wealth, I think it shows a broader strategy, right? You can go back to joint accounts and trust accounts, the joint cash experience, the shared views where couples can view their finances together and choose what to share with each other, depending on how they personally arrange their finances. I think you can look at 529 accounts. You can look at Custodial Accounts as all ways of helping save for the future of the family.

David Fortunato CEO and President, Wealthfront 43m 29s

Mortgage, I think, is another product that works well with the narrative of growing with clients as they have kids and their financial lives become more complicated, being there to support them through those transitions. There's a lot more for us to do as we build out more to support clients going through everything from getting their first job out of school, getting married, having kids, and forward in the future. But it's an area of focus for us, and Custodial Accounts is one step along that journey.

Alex Markgraff Analyst, KBCM 44m 1s

That's great. Then maybe just on a related note, as you think about addressing more of the client wallet, if you will, and some of the monetization opportunities around that, and just translating to potentially higher LTV, does that allow you all to lean in on the marketing side more so than in the past, be more aggressive or competitive with incentives? Thanks.

David Fortunato CEO and President, Wealthfront 44m 27s

I mean, we've seen some success with incentives, and I would expect that we continue to deploy incentives where it makes sense to do so. We've done everything from existing client incentives to drive behavior as well as new client incentives, new account type incentives where it makes sense to do that. That's one of the things that we've talked about for some time as a use of capital that we're interested in is deploying incentives to broaden and deepen our relationship with existing clients and attract new clients to the platform.

David Fortunato CEO and President, Wealthfront 45m 2s

The referral incentive has obviously been vital to growth and an area that we've really focused both our product offering on doing well on referrals, but also kind of putting our clients who are referring their friends, family and coworkers with the best possible offer in hand to be able to go recommend the product that they use and like to folks that they know. I think that our payback periods on our incentives are among the lowest of the marketing stack that we have, and so we continue to experiment with new incentives and update our incentive offers for both behavioral characteristics and new client offers as we see opportunities in the marketplace.


Alex Markgraff Analyst, KBCM 45m 50s

Okay, great. Thanks, David, appreciate it.

David Fortunato CEO and President, Wealthfront 45m 54s

Thank you.

Operator 45m 55s

Thank you. Our next question comes from the line of James Yaro from Goldman Sachs. Your question please.


James Yaro Analyst, Goldman Sachs 46m 3s

Good afternoon. You've talked about a 55 basis points cash management fee rate at the end of August. I was hoping you might be able to comment generally on the outlook for the cash management fee rate and more specifically, how the cash management fee rate could evolve potentially if we were to see higher rates.

Alan Imberman CFO and Treasurer, Wealthfront 46m 25s

Hey, James. Alan here. I'll take that. I think it's obviously something difficult for us to opine on in terms of how it will evolve with different rates. We do, as we mentioned before, think that a rate increase is obviously a very nice organic moment of delight for clients. We've seen historically that that does lead to a slight bump in deposits. However, as we mentioned as well, September is a month of cash, I'm sorry, of taxes payment for some clients. Then there's the APY to APR conversion, which helps us in this case very slightly. So that could be around a basis point with every 25 basis point increase, roughly. So that would obviously be beneficial. The market for sweep deposits has become a little more favorable for us, so we're getting a little better pricing as well, again, on the margins.

Alan Imberman CFO and Treasurer, Wealthfront 47m 24s

But then again, if we're very successful with the incentive, we could see near-term pressure on fee rate because obviously that has a payback to it. There's a lot of puts and takes there. We've given what was at the end of August as just kind of a guide. What I think that says is on the incentive is we're seeing gradual uptake of the incentive, and some of that is by design as we've been doing it in a measured way to really look at the behavior and make sure that it has good unit economics, and we'll look at ways to explore doing more of that over the back half of the year.

So there's a lot of puts and takes there, and I think for us, we're going to have to see how it plays out.

Alan Imberman CFO and Treasurer, Wealthfront 48m 15s

But I can't give you specific guidance for the rest of the year or into the future.

 **James Yaro** Analyst, Goldman Sachs 48m 24s

Okay, understood. You've mentioned a target for a 40% adjusted EBITDA margin in the near term, and you put up over a 41% margin this quarter. Any thoughts that you might be able to offer on the longer-term margin profile of the company?

Alan Imberman CFO and Treasurer, Wealthfront 48m 44s

Sure. I mean, I still think that in the long term we can be over 40%. I think what is going to happen in the near term is there will be a headwind from Home Lending. However, the kind of higher rates has given us more time to invest, and as David mentioned, become more efficient, both in terms of building in-house products that make our people more efficient and designing out vendors. But it is something that's going to take a lot of scale in order to really start seeing the incremental margin improvements. But with a business like ours that is from a headcount footprint extremely small, from a physical footprint almost nonexistent, over the long term with our ability to develop, automate, and all of those things, we're going to have a very high EBITDA margin. But there's near-term headwinds as we invest.

Alan Imberman CFO and Treasurer, Wealthfront 49m 46s

We think that that is a good trade because it opens up a very large total addressable market. It helps our clients in different parts of their lives and provides a really good hedge for the business to be able to grow really in most, if not all, environments.

 **James Yaro** Analyst, Goldman Sachs 50m 6s

Understood. Thank you.

Operator 50m 9s

Thank you. This does conclude the question and answer session of today's program. I'd like to hand the program back to you, David, for any further remarks.

David Fortunato CEO and President, Wealthfront 50m 19s

Thanks. I want to thank everyone for joining the call and for your continued interest in Wealthfront. We look forward to staying in touch and updating you on our progress in the months ahead. Thanks, all. Bye.

Operator 50m 30s

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.