Operator 0s

Good day everyone, thank you for standing by. Welcome to Wealthfront's first quarter 2027 earnings conference call. At this time, all participants are in a listen only mode. After the presentation, there will be a question and answer session. To ask a question, you will need to press star one one on your telephone. You will hear a message advising your hand is raised. To withdraw the question, please press star one one again. Please be advised that today's conference is being recorded. It's my pleasure to hand the conference to the Vice President of Investor Relations, Matthew Moon. Please proceed.

Matthew Moon VP of Investor Relations, Wealthfront 40s

Good afternoon, everyone, and thank you for joining us today to discuss Wealthfront's fiscal first quarter 2027 financial results, which reflect the quarter ended April 30th, 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, and the company can give no assurance that they will be or prove to be correct.

Matthew Moon VP of Investor Relations, Wealthfront 1m 14s

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. 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'll turn the call over to David.

David Fortunato CEO and President, Wealthfront 1m 50s

Good afternoon, everyone. In our fiscal first 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. 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 and engendering trust, driving asset retention and low-cost word-of-mouth growth, which once again drives high margins.

David Fortunato CEO and President, Wealthfront 2m 27s

This flywheel enables us to reinvest in and enhance our core cash management and investment advisory product offerings, supports our organic build-out of Wealthfront Home Lending and future product innovations, and most importantly, helps our clients save more on every paycheck, earn higher returns on their savings, and borrow at lower rates. In other words, grow their wealth. We remain grounded in our belief that the best way to build deep, long-term client relationships is to continue to delight clients by offering them more value than they can find anywhere else and focusing on their long-term financial outcomes.

David Fortunato CEO and President, Wealthfront 3m 5s

This informs our product development strategy and keeps us focused on our roadmap regardless of short-term market conditions. At quarter end, total platform assets grew 19% year-over-year to a record $96.6 billion, with investment advisory assets of $51.7 billion up 39% year-over-year, and cash management assets of $44.9 billion up 3% year-over-year. We ended the quarter at roughly 1.46 million funded clients, up 15% year-over-year, and roughly 1.9 million funded accounts, also up 15% year-over-year, reflecting 1.3 funded accounts per funded client. Total net deposits in the quarter were $554 million.

David Fortunato CEO and President, Wealthfront 3m 56s

This includes $577 million in cash management net withdrawals in April, primarily due to tax seasonality. Recall, our clients are net cash taxpayers, highlighting the attractive financial profile of our average client. This monthly result was consistent with the expectation we set last quarter for cash management net withdrawals in April of this year to exceed the $538 million in net withdrawals realized in April of last year.

David Fortunato CEO and President, Wealthfront 4m 26s

These are, of course, net figures and specific to activity realized directly on our platform. Looking more broadly, this March and April, a period we refer to as tax season, we estimate our clients made over $3 billion in combined tax payments from their Wealthfront cash accounts and from their linked external accounts, with the latter including amounts that were initially withdrawn from Wealthfront accounts prior to tax payment, in addition to payments from funds held in linked accounts.

David Fortunato CEO and President, Wealthfront 4m 54s

Clients directly paid tax authorities over $500 million from their Wealthfront cash accounts during the year's tax season, up 40% year-over-year, indicating growing trust in our liquidity offerings. This has likely been the result of significant investment into our platform over the years made to deliver positive tax time experiences to our clients. For example, clients increasingly utilized our leading low-cost Portfolio Line of Credit, or PLOC rates, in order to fund tax obligations, with tax dollar payments funded with PLOC balances up roughly two times year-over-year.

David Fortunato CEO and President, Wealthfront 5m 33s

We also recently invested in dynamic withdrawal limits, increasing client-specific limits up to $1 million per account. These new client-specific limits enabled more of our clients to fully satisfy their tax obligations in a single tax payment out of their cash accounts, strengthening our position as an attractive primary operating account option for our clients. It might be counterintuitive, but we want our clients to pay their taxes from their cash accounts given our ability to drive delightful tax time experiences. Which we believe will lead to us receiving a disproportionate share of their future savings over time.

David Fortunato CEO and President, Wealthfront 6m 12s

We've also experienced strong uptake in our cross-product adoption incentive launched in early March. Recall, this incentive provides clients who direct deposit at least $1,000 per month and also fund an investment account with an ongoing 25 basis point increase to their cash APY. This directly led to over 4,000 new account openings and helped drive asset-weighted cross-product adoption to roughly 63% as of May end, up one and a half percentage points versus the level realized immediately prior to launch at February end.

David Fortunato CEO and President, Wealthfront 6m 45s

In the early days, we've also been encouraged by the fact that on average, new adopters of the incentive have consistently brought on a notably larger amount of net deposits in each month since launch than that of similar clients that have not adopted the incentive. We also continuously invest in our core products. In cash management, we launched Cash Category Goals and recurring cash to category transfers. Cash Category Goals allow clients to more easily track their progress towards personalized financial targets within specific cash sub-accounts.

David Fortunato CEO and President, Wealthfront 7m 19s

Our new recurring cash to category transfer feature provides clients another option to better achieve those goals on an automated basis. On investment accounts, we shipped one-tap-to-invest in the Stock Investing Account to streamline the purchase and sale of individual stocks and ETFs as we continue to transition this account to a more traditional brokerage offering. We althfront Home Lending added a second takeout investor in the quarter and launched general availability in Colorado in early April and in Texas in early May.

David Fortunato CEO and President, Wealthfront 7m 52s

As a reminder, we're running a similar playbook for home lending that we have successfully deployed in our cash and investing businesses. That is using technology to deliver a better digital experience and a better rate with transparent fees. While we are still in early days, the initial client feedback and data supports our conviction and our ability to deliver on these objectives. While anecdotal, I'd like to share a couple of specific client comments to bring the experience to life. One of our clients raved about the self-serve capability relative to his prior experiences.

David Fortunato CEO and President, Wealthfront 8m 24s

That is the ability to independently explore the latest mortgage rates without having to call up a mortgage banker or broker every time he wanted to open the fridge, as he described it. Another client enjoyed the ability to track the progress of his application in real time in-app. The fact that our application process can be handled entirely through mobile completely end to end is a differentiator, and we've seen more than half of Wealthfront Home Lending clients interacting with the flow via mobile.

David Fortunato CEO and President, Wealthfront 8m 53s

This is all while continuing to deliver on our objective of providing clients home mortgage rates at least 50 basis points better than the national average on average in the states in which we operate today. As we noted last quarter, we are deliberately rolling this service out at a measured pace in order to maximize learnings to optimize long-term client outcomes. The fact that we've been able to increase rate lock volume by roughly 25% month-over-month in May amidst this build-out is a feat that I'm particularly proud of, especially in the face of rising mortgage rates.

David Fortunato CEO and President, Wealthfront 9m 33s

Currently, we are focused on automating the decisioning process of client pre-qualifications, starting from the application intake process all the way through approval. We plan to share more details with you all in the coming quarters. Taking a step back, since the early days of Wealthfront, we have been saying that we can utilize technology to provide digital advisory solutions at a level similar to or better than traditional solutions provided by financial advisors. AI has, and will certainly continue to play a role in achieving this goal.

David Fortunato CEO and President, Wealthfront 10m 5s

We're confident in our ability to continue to build solutions, including AI solutions, that automate and improve the personal financial experience for our clients, so long as they continue to build client trust. In order to determine which AI solutions best achieve our trust and wealth-building goals, we need to experiment and test these solutions with our clients. We are entering that phase now and will share more with you over time as we learn more. With that, I'd like to turn it over to Alan to go over the financials.

Alan Imberman CFO and Treasurer, Wealthfront 10m 36s

Thanks, David. Starting with the income statement. Revenue came in at $90.5 million, up 7% year-over-year. Cash management revenue was $63.4 million, down 1% year-over-year due to a lower annualized cash management fee rate of 58 basis points, down four basis points year-over-year, and within the expected 57-58 basis point range we had communicated last quarter. The lower fee rate was partially offset by higher average cash management balances measured as the simple average of beginning and end-of-quarter figures, up 5% year-over-year to $45.1 billion.

Alan Imberman CFO and Treasurer, Wealthfront 11m 24s

The year-over-year decline in the annualized cash management fee rate was driven primarily by the fee rate lost in converting APYs to an APR, given the lower Fed funds rate, as well as the new cross-product adoption incentive introduced in early March that impacted two months of the quarter. As David noted, we estimate that in the first few months in market, this incentive has notably increased net deposits brought to the platform from new adopters relative to similar non-adopters, reflecting early success in deepening relationships with adopted clients.

Alan Imberman CFO and Treasurer, Wealthfront 11m 59s

To help inform your models, the run rate annualized cash management fee rate at May end was 54 basis points. On an EFFR neutral basis, the run rate annualized cash management fee rate at May end was 56 basis points. The 54 basis points, however, includes the recent impact of the effective fed funds rate declining by two basis points within its target range, with this decline having started on May 7th.

Alan Imberman CFO and Treasurer, Wealthfront 12m 30s

Investment advisory revenue was $26.2 million, up 32% year-over-year, primarily due to average investment advisory balances of $50.2 billion, up 34% year-over-year, while the annualized investment advisory fee rate of 21 basis points was roughly flat versus the same period last year. Asset growth was driven by both strong markets and net deposits over the trailing 12-month timeframe. Gross profit was $80.5 million, up 6% year-over-year, reflecting a gross profit margin of 89%, down roughly one percentage point year-over-year, due in part to start-up expenses associated with Wealthfront Home Lending, higher money movement costs, and higher data and other cost of revenue expenses.

Alan Imberman CFO and Treasurer, Wealthfront 13m 24s

Total GAAP expenses of $75.9 million were up 46% 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 the two dual trigger conditions was not satisfied until the IPO occurred. Adjusted operating expenses, that is, expenses excluding share-based compensation, were $58 million, up 16% year-over-year, due primarily to higher product development expense.

Alan Imberman CFO and Treasurer, Wealthfront 14m 3s

The adjusted product development expense increase was due to higher personnel-related expenses, primarily increased headcount, and higher cloud computing expense. Adjusted EBITDA of $37.5 million was down 1% year-over-year and reflected an adjusted EBITDA margin of 41%, down three percentage points year-over-year, consistent with the expectations that we communicated last quarter, including the impact of continued investment into incentives and to rolling out Home Lending.

Alan Imberman CFO and Treasurer, Wealthfront 14m 38s

We continue to demonstrate significant operational and financial discipline, delivering a Rule of 40 metric of 49 for the quarter. This is our 15th consecutive quarter exceeding the Rule of 40 and underscores a business model designed to successfully and consistently balance top-line growth with structural efficiencies of our automated platform. GAAP net income was $12.8 million, and GAAP earnings per share was $0.07. Taking a moment on share count, our GAAP weighted average diluted shares outstanding in the quarter was 175.5 million.

Alan Imberman CFO and Treasurer, Wealthfront 15m 20s

This includes the impact of 3.1 million open market repurchases executed throughout the quarter, as well as the treasury method impact of outstanding RSUs and options. The future impact of these awards on our diluted share count for the purposes of reporting GAAP financials may fluctuate meaningfully period to period depending on our average share price in those periods. We've provided a table in the back of our presentation to illustrate what our GAAP weighted average diluted share count could have been in the first quarter under different average share prices, with important caveats noted on that page.

Alan Imberman CFO and Treasurer, Wealthfront 15m 55s

Beyond share price, our GAAP weighted average diluted share count in future periods would be impacted by new grants, forfeitures, and the change in unamortized stock-based compensation expense. Net cash provided by operating activities was $22.7 million, and adjusted free cash flow was $42.7 million. This results in an adjusted free cash flow conversion ratio, that is, adjusted free cash flow as a percentage of adjusted EBITDA of 114%. Our robust cash flow generation and significant proceeds raised through the IPO helped facilitate the recent transition of our clients' cash accounts to a new bank provider.

Alan Imberman CFO and Treasurer, Wealthfront 16m 41s

This bank provider unlocked the ability to administer the higher client-specific withdrawal limits of up to 1 million that David mentioned, which led to improved tax time outcomes for our clients. As a result of this transition, we now initially fund our clients' early direct deposit payments and are subsequently reimbursed when the client receives their direct deposit at most, just two days later. Therefore, this quarter and going forward, we will be presenting free cash flow adjusted for this change in direct deposit receivables in combination with the change in funded instant withdrawal receivables, given that both activities have no impact to our cash profitability but will continue to impact quarter-end figures simply due to timing.

Alan Imberman CFO and Treasurer, Wealthfront 17m 26s

The early direct deposit, in particular, consistently occurs in larger quantities near typical pay cycles, including at the end of each month. The cumulative change in these short-term receivables was $21 million quarter-over-quarter. Once again, this does not have a material impact to the cash profitability of the business but does provide our clients with additional days of interest income generation at our leading APY. Looking ahead, recall we pay out 35% of accrued annual cash bonuses to our employees each July.

Alan Imberman CFO and Treasurer, Wealthfront 17m 58s

We anticipate a lower adjusted free cash flow conversion ratio in the fiscal second quarter relative to this quarter. In March, we received board authorization for a $100 million share repurchase program. During the fiscal first quarter 2027, we repurchased 3.1 million shares for roughly $27 million as part of this repurchase program at an average price of $8.66 per share. We are 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 50s

Even with the strong repurchase activity, we ended the quarter with cash and cash equivalents of $428 million, which excludes the receipt of temporary client funding receivables referenced earlier. 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 bolster resilience and durability. Closing with current trends. Today we published May metrics. Total platform assets ended May at another month-end record of $99 billion.

Alan Imberman CFO and Treasurer, Wealthfront 19m 40s

Total net deposits were $447 million, including $342 million in investment advisory and $140 million in cash management. The continued resilience and positive market sentiment in May drove the strongest month in total cross-product flow from cash to invest since January 2026, helping drive asset-weighted cross-product adoption to roughly 63%, up roughly one and a half percentage points since February end, immediately prior to the launch of the Cross-Product Adoption Incentive.

Alan Imberman CFO and Treasurer, Wealthfront 20m 16s

Looking ahead, 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. We make money when our clients do, and this product suite, as well as continued organic investments, puts 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 43s

Thank you. As a reminder, to ask a question, simply press star one one on your telephone and wait for your name to be announced. To remove yourself, press star one one again. One moment for our first question. Comes from Devin Ryan with Citizens JMP. Please proceed.

Devin Ryan Director of Financial Technology Research, Citizens JMP 21m 6s

Great. Thanks. Good afternoon, everyone. First question on the new cross-product adoption incentive. Good to hear about some of the early uptake, 4,000 account openings related to that. That's about 10% of the new account growth in the quarter. Just love to hear about how the marketing is going for that and whether you could maybe lean in more to accelerate that element of new accounts. If you can also just give us a sense of how much more cash these customers are bringing on platform relative to the average since you guys highlighted that as well. Thanks.

David Fortunato CEO and President, Wealthfront 21m 43s

Hey, Devin. Yeah, thanks for the question. May was a good month for client acquisition on a relative basis, and we saw good positive trends in client acquisition. I think the two key top-of-funnel drivers were the direct deposit incentive. On top of the kind of natural growth from the direct deposit incentive, I would add that we tend to see a few thousand dollars more on an average net deposit basis from clients who adopt the direct deposit incentive. On an aggregate, recent cohorts who start with cash are adopting investment accounts at a higher rate than they have been.

David Fortunato CEO and President, Wealthfront 22m 22s

That's been a number that's been improving for over the last six months on a monthly cohort basis. That's been great to see. The other thing that we've noticed is elevated organic traffic from large language models that are referencing Wealthfront as a solution to folks that are engaging. The elevated traffic has also been a positive change for getting clients on board and coming in as sort of warm leads to Wealthfront.

Devin Ryan Director of Financial Technology Research, Citizens JMP 22m 56s

Got it. Thanks. As a follow-up, just big picture on AI, you kind of alluded to looking at obviously potential opportunities over time, and it would be great just to hear a little bit more about the strategy and what we should expect in the coming quarters. Are there specific products that you'll be launching, or is it more just more deeply integrating AI into what you're already doing? Obviously appreciate you have a culture of automation and a lot of what you're doing is already effectively connected to AI, but would love to hear more about kind of client-facing or products that are tailored around that and whether we should expect anything in the coming quarters around that. Thanks.

David Fortunato CEO and President, Wealthfront 23m 38s

Yeah. The first thing I would say is the base and foundation of our business is client trust and growing client trust in Wealthfront and our offerings. When clients think about their futures, we want to make sure that everything that we do builds trust as the technology capabilities and what we're able to offer clients evolve. I would say it's not very difficult to build tools using large language models that provide automated financial advice to clients. What is more difficult and more important from our perspective is to use those tools in a way that achieves the trust-building objectives that we have.

David Fortunato CEO and President, Wealthfront 24m 20s

I think if you Some of those capabilities we have today some of those capabilities that will need in the future but when we think about that future what were going to do is as we build toward we believe is long term solution focus on identifying areas where we can both build client trust and improve the business along the way to get those solution out to clients incrementally we

David Fortunato CEO and President, Wealthfront 24m 20s

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Devin Ryan Director of Financial Technology Research, Citizens JMP 25m 22s

Understood. Great color, David. Thanks so much. Appreciate it.

David Fortunato CEO and President, Wealthfront 25m 26s

Thank you.

Operator 25m 28s

Thank you. Our next question comes from Dan Perlin with RBC Capital Markets. Please proceed.

Dan Perlin Financial Technology Analyst, RBC Capital Markets 25m 36s

Thanks. Good evening. Alan, I just wanted to make sure I heard you correctly. You said the May end cash management fee was running around 54 basis points, as it takes into consideration, I think current rate incentives then thinks the Fed funds kind of curve. Is that equivalent to the 58 basis points that you guys just posted or are we closer to the 56 basis points that you also referenced? I just want to make sure I fully appreciate what you're trying to tell us there.

Alan Imberman CFO and Treasurer, Wealthfront 26m 5s

Yeah. Hey, Dan. What I was referencing is, yes, what we would calculate May revenue on would have been a 54 basis points effective annualized cash fee rate. You have to recall, the color there was that the Fed funds dropped two basis points, on an EFFR neutral basis, had that not dropped on May 7th is when the first drop happened, it would have been a 56 basis points. If you were trying to compare the 58 basis points for the quarter, you would want to compare it to 56 since there was no EFFR drop during the quarter. That's on a more comparable basis. Yes, it's a comparable number in terms of its representation.

Dan Perlin Financial Technology Analyst, RBC Capital Markets 26m 52s

Got it. Yep. No, that's super helpful. Can you guys also just dovetailing on some of the last kind of questions that were asked, the payback period as you think about these incentives that you put in the market, obviously you've talked about clients coming in with higher balances, and to that extent, I would suspect they're fairly sticky. I'm just wondering what's the payback period, or is that even a measurement stick that you guys think about just at these levels? Thank you.

David Fortunato CEO and President, Wealthfront 27m 23s

I think it's too early to get into specifics of how we would look at the payback period. Again, we're profitable on these clients that are coming in because a 25 basis point incentive on the cash management assets were still making.

Alan Imberman CFO and Treasurer, Wealthfront 27m 39s

Thirty

David Fortunato CEO and President, Wealthfront 27m 40s

30-ish basis point fee on the cash that they're bringing on the platform. We're driving cross-product adoption, there's an investment advisory revenue piece associated with it. We're still profitable bringing these clients on board even with the incentive. As they're growing faster, both in cash and investing, we would expect that that pays back in the future, too early to get into specifics of that payback time.

Dan Perlin Financial Technology Analyst, RBC Capital Markets 28m 8s

Okay. Nope, that's great. It's clearly working. Okay. Thank you very much.

Operator 28m 14s

One moment for our next question, please. It comes from Ryan Tomasello with KBW. Please proceed.

Ryan Tomasello Managing Director, KBW 28m 23s

Hi, everyone. This one's for Alan. I guess last quarter you provided some guardrails on near-term margin expectations. Any update you can provide there? I guess zooming out as you balance continued investment in the core brokerage platform and also newer initiatives like mortgage, how are you thinking about the path of margins over the next several years? Specifically, the key milestones or timing we should be watching for a return to positive operating leverage in the business. Thanks.

Alan Imberman CFO and Treasurer, Wealthfront 28m 59s

Ryan. I would say that nothing has really changed since what we provided last quarter which was before kind of really heavily investing in getting closer to rolling out home lending, we were in the kind of 45%-47% EBITDA margins. As we invest in that, we expected margins to get closer to 40%, and that seems to be the case here for the near term. It's hard to talk about future milestones and timing going forward because obviously the momentum we're going to have with home lending is somewhat rate dependent, as I'm sure you appreciate.

Alan Imberman CFO and Treasurer, Wealthfront 29m 42s

What we did and have been consistent in talking about is as that ramps up and does become steady state, it is a slightly lower margin profile, and it takes a while to get to kind of steady state in the way we look at it. We would expect margins to be lower than kind of what they were prior to Wealthfront Home Lending as we get in that steady state environment. What it does is it opens up a bunch of different things for Wealthfront.

Alan Imberman CFO and Treasurer, Wealthfront 30m 11s

One, it's a great dynamic macro hedge in low rate environment. It offers a large total addressable market. Even better, it helps us evolve with our clients and gives them an opportunity, again, to share the savings with them that we can get by doing a totally digital automated experience. There's obviously the trade-off of margin for growth. I think we're happy to make that trade.

Ryan Tomasello Managing Director, KBW 30m 42s

Thanks for that. Then, I guess, switching gears more broadly on mortgage. Appreciate the commentary you gave in prepared remarks, can we just double-click on how that rollout and timeline to scaling the mortgage product is tracking relative to the expectations you set out several months ago? I guess any interesting operational learnings that have emerged so far or unexpected bottlenecks. I guess, David, it sounds like the use of the word deliberate and measured pace, I can appreciate just how tactical you're trying to be with getting that right. Just trying to understand how it's tracking relative to the initial guideposts you laid out. Thanks.

David Fortunato CEO and President, Wealthfront 31m 28s

Yeah. I'll start, and then maybe Alan can chime in. I think I used some of the same terms last quarter, I'm not trying to portray a difference there. The environment's changed, right? Rates have gone up. To get the same level of learnings in a higher rate environment, you're going to see more purchase, less refi volume, and you're probably going to have to go a little bit broader a little bit earlier to continue having the volume in the funnel that you want to be able to evaluate the digital experience and the rate benefit that we're giving to clients. I think I mentioned in the prepared remarks that we did 25% month-over-month increase in rate lock volume in May as we started ramping up a little bit. We'll see how the sort of forward macro outlook evolves in the mortgage space.

David Fortunato CEO and President, Wealthfront 32m 16s

We still think there is seasonality that we would expect to see in terms of demand for mortgages kind of industry-wide. We still see our clients purchasing homes and engaging with They're born short one unit of housing, and they need housing, and our clients are in the market. I think there's a lot of learnings that we have around specifics of the flow and our clients. As an example, being able to automate RSU income verification is something that's more important for our client base than it might be for the average mortgage borrower.

David Fortunato CEO and President, Wealthfront 32m 54s

That's something that we're investing in and working on. Ultimately, the goal is to be able to, at scale, deliver a great digital experience and at least 50 basis point better rate than they would get on average. We feel confident in our ability to deliver those things, and we're going to see how the macro environment evolves and how our technology capacity evolves as we start to scale up a little bit more.

Alan Imberman CFO and Treasurer, Wealthfront 33m 19s

Yeah. Kind of on the timing. Obviously, when we came up with the timing, it was based on kind of expectations that included potential rate cuts in the forecast. Now there's potential for even a rate increase next year. It's going to be macro-dependent. As David mentioned, counterintuitively, as rates go up, we actually need to expand broader to get more data. That doesn't necessarily mean we get as much uptake because rates are so high and less people are refinancing. It's difficult call to see exactly where we're going to get on timing relative to what we thought, call it six to nine months ago. We're really happy with the progress we are making, and just the long-term nature of this investment and what it will do for our clients and our business.


Ryan Tomasello Managing Director, KBW 34m 19s

Great. Thank you, guys.

Operator 34m 22s

Thank you. Our next question comes from the line of Jonathan Yarrow with Goldman Sachs. Please proceed.

Analyst, Goldman Sachs 34m 29s

Hi. Thanks for taking the question. This is Matthew in for James. Congratulations again on the strong results. Could you please contextualize for us the deposit pricing competition you're seeing in the market today, and how has that evolved over the course of the year and versus your expectations?

David Fortunato CEO and President, Wealthfront 34m 46s

Yeah. I mean, the competitive environment for deposits has changed in the last few months. We've seen high-yield savings institutions, and more of the fintech players be a little bit more conservative on rates. I think that the thing to keep in mind that's important is when we look at our investor sentiment surveys, which we run monthly, we run them towards the end of the month. End of month February investment sentiment was quite good.

David Fortunato CEO and President, Wealthfront 35m 16s

I would say there was a fair amount of uncertainty in the market. People weren't sure, but in general, it was a reasonably positive level of investment sentiment. Late March, we saw a really steep and sharp decline in investment sentiment. We saw part of the way recovery in April and a further recovery in May. When we think about the flows with cash and investing, it's primarily dominated by investor sentiment and changes in investor sentiment. We get some recurring flows into the investment platform through recurring deposits.

David Fortunato CEO and President, Wealthfront 35m 55s

We get recurring flows into the cash platform from both recurring deposits and direct deposits. I would say we feel good about where our rate is. We'll see how effective Fed funds evolves over time. I would point folks to a speech that the New York Fed System Open Market Account manager gave a couple of weeks ago, talking about the supply of reserves in the system and how he's thinking about it, which I think is a useful framework to keep in mind. We've seen less competition from a rate perspective in the past few months.

Analyst, Goldman Sachs 36m 35s

Thank you. That's super helpful. Just kind of piggyback on that, how would you think about the cash outflow trends now that rate cuts are pretty much fully out of the forecast for 2026? Would you expect to see less attrition of cash balances? I know you mentioned very strong cross-product adoption.

Alan Imberman CFO and Treasurer, Wealthfront 36m 53s

Yeah, I don't know. I would definitely say it's a more favorable environment than one where cuts are happening and expected. I think going back to your previous question too, one of the thing that clients really like about the way we price is that it's predictable. We only change rates when the Fed does, except when we gave back the five basis points previously when rates went up, which is obviously a delightful moment.

Alan Imberman CFO and Treasurer, Wealthfront 37m 21s

Relative to the competition, which will change it kind of ad hoc and even within weeks of each other. Some of that I think helps us from a stability perspective, win business and retain business. Directly to your question, obviously in an environment where rates are at a pretty good level and not declining, we would expect to see good trends in cash. May was positive, as a reminder.

Alan Imberman CFO and Treasurer, Wealthfront 37m 53s

We do have the cross-product adoption incentive, so we are encouraging that. We're seeing really good results as we laid out in the prepared remarks. We've built the business to be resilient no matter which side of the house clients want to grow their wealth on. We think the environment is conducive for that currently, but obviously, market conditions can change.

Analyst, Goldman Sachs 38m 21s

Thank you so much.

Operator 38m 24s

Thank you. One moment for our next question. It comes from Alex Markgraff with KeyBanc Capital Markets. Please proceed.

Alex Markgraff VP and Equity Research, KeyBanc Capital Markets 38m 34s

Hey, guys. Thanks for taking my questions. Just a couple from me. First, just sort of on the client acquisition side of things, I'm curious if there's anything or how we should think about Wealthfront sort of showing up in consideration of private company liquidity events, just as we think about some higher profile or potential higher profile activity this year. Just a question there on the client acquisition side and kind of showing up in the right place around those. Two, just on the incentives, I'm clear the Direct Deposit Incentive. That's a sort of perpetual incentive applied to those accounts. Is there any off-ramp to those? Maybe just in that same vein, how are you thinking about maintaining that incentive, and when might you look to off-ramp and stop offering that?

David Fortunato CEO and President, Wealthfront 39m 24s

We like the way the incentive is performing now. We think it provides a broader ecosystem adoption of Wealthfront. We like the investing flows and the cash flows that it's leading to. We have obviously the ability to change it in the future, but we're not looking to make changes to that incentive at the moment. On your first question, I would say that if you think about what Wealthfront's strategy historically and generally has been, it's to try to help people early in their financial journey, and then as they experience liquidity events or gain wealth over time through savings, we want to help them do the best job that we possibly can in growing their wealth.

David Fortunato CEO and President, Wealthfront 40m 7s

The benefit we have is we have a number of clients who are clients of some of the companies that I suspect you're anticipating having liquidity events this year and next. Our goal is really to grow with them and to help them grow their wealth, both through investing and cash management as we continue to offer more features. We think we'll be able to facilitate growing their wealth for many decades to come. The strategy is quite different than what you might see from a traditional wealth manager trying to acquire clients at a point of wealth generation.

David Fortunato CEO and President, Wealthfront 40m 45s

We're really seeking to acquire clients very early in their journey and then grow with them for the long term. I think we've had some success with the companies that you're thinking of. We'll see how that plays out. I would also just note, though, that most of these companies are going to have lockups that are going to impact the timing of even the possibility of liquidity reaching an outside account.

Alan Imberman CFO and Treasurer, Wealthfront 41m 12s

Yeah. I would add too, the nature of those companies. The employees working there who are most likely looking for an experience with their financial solutions, their financial advisor that looks more like what we offer rather than incumbents. I think we're well-positioned from that standpoint of having the products that we have and probably already have many clients, as David mentioned, working at those companies to evangelize us for others as that occurs. We feel good about the position we have there.

Alex Markgraff VP and Equity Research, KeyBanc Capital Markets 41m 50s

Got it. Thank you. I appreciate the thoughtful response.

Operator 41m 54s

Thank you. As I see no further questions in the queue, I will conclude the Q&A session and pass it back to David Fortunato for closing comments.

David Fortunato CEO and President, Wealthfront 42m 4s

Thank you. 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. Thank you all, and have a great rest of your day.

Operator 42m 16s

This concludes our conference. Thank you for participating, and you may now disconnect.