GreenSky, Inc. Reports Strong Q3 Net Income and Adjusted EBITDA

Net Income of $39.8 million; Diluted EPS of $0.19
Adjusted EBITDA of $58.3 million with an Adjusted EBITDA Margin of 45%

ATLANTA--(BUSINESS WIRE)--Nov. 4, 2021-- GreenSky, Inc. (NASDAQ: GSKY), a leading financial technology company Powering Commerce at the Point of Sale®, reported financial results today for the third quarter ended September 30, 2021.

"I am thrilled to report that GreenSky posted another strong quarter of outstanding profitability metrics which underscores our continued generation of attractive operating results," said David Zalik, GreenSky's Chairman and Chief Executive Officer. "In September, GreenSky entered into a definitive agreement to be acquired by Goldman Sachs. This pending acquisition is a testament to GreenSky's strong underlying profitability, unparalleled merchant and consumer network, impressive cloud native technology platform and continued commitment to delight our customers." Zalik continued, "I would like to extend my deepest thanks to our entire team for their collective commitment and contributions. On behalf of GreenSky, we could not be more excited to join the Goldman Sachs team and look forward to what we will accomplish together."

Andrew Kang, GreenSky's Chief Financial Officer, continued, "GreenSky reported strong third quarter Net Income of $39.8 million and Adjusted EBITDA of $58.3 million despite the ongoing supply chain and labor disruption challenges in our home improvement business. Cost of revenue continued to outperform expectations driven by ongoing operational efficiencies, continued strength in portfolio performance, lower cost of funds and exceptional cost discipline."

With the pending merger transaction expected to close in Q4 2021 or in Q1 2022, GreenSky will not be hosting an earnings conference call and is suspending financial guidance going forward.

Third Quarter Financial Highlights:

- **Transaction Volume:** Third quarter transaction volume was $1.5 billion, an increase of 4% when compared to the third quarter of 2020. Home improvement approved credit lines were $2.6 billion and represented an all-time third quarter record.

- **Transaction Fee Rate and APR at Origination**: For the third quarter the average transaction fee rate was 6.40%, versus 6.63% for the second quarter of 2021, while the third quarter APR at origination was 13.6%, compared to 13.5% for the second quarter of 2021 as product mix continued to move toward higher APR plans.

- **Revenue:** Third quarter total revenue was $128.1 million.
  - Transaction fee revenue was $98.6 million, a decrease from the third quarter of 2020 as the growth in transaction volume was offset by the reduction in transaction fee rate.
  - Total servicing revenue was $26.1 million in the third quarter with servicing fee revenue flat year-over-year.

- **Cost of Revenue:** Total cost of revenue decreased $58.9 million, or 63%, compared to the third quarter of 2020. The reduction includes a 13% improvement in operational costs due to improved efficiency, a 46% improvement on our bank waterfall costs due to strong credit performance and a 92% improvement in our loan sale cost of funds.

- **Credit Quality:** Credit performance was stable, with thirty-day plus delinquencies of 0.73% at September 30, 2021, an improvement of 26 basis points versus 0.99% at year-end December 31, 2020.

- **Net Income and Diluted Earnings per Share:** For the third quarter of 2021, the Company recognized net income of $39.8 million compared to net income of $2.8 million for the same period of 2020, resulting in diluted earnings per share of $0.19, compared to diluted earnings per share of $0.01 in the third quarter of 2020.

- **Adjusted Pro Forma Net Income and Adjusted Earnings per Share[(1)]**: For the third quarter of 2021, the Company recognized adjusted pro forma net income of $37.6 million, compared to $3.9 million for the third quarter of 2020, which resulted in adjusted pro forma diluted earnings per share of $0.21, compared to $0.03 for the third quarter of 2020.

- **Adjusted EBITDA[(1)]:** Third quarter Adjusted EBITDA was a company record $58.3 million, an increase of 51% from $38.7 million in the third quarter of 2020. Adjusted EBITDA margin improved to 45% in the third quarter of 2021, up from 27% in the third quarter of 2020. The Company's 2021 year-to-date Adjusted EBITDA margin is 40%.

[(1)] Adjusted Pro Forma Net Income, Adjusted Pro Forma Diluted Earnings per Share, Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP measures. Refer to “Non-GAAP Financial Measures” for important additional information.

- **Cash Flows:** Net cash flows provided (used) by operating activities for the nine months ended

September 30, 2021 and 2020 were $301 million and ($430 million), respectively.

Business Updates:

- **Merger Agreement:** GreenSky entered into a definitive agreement pursuant to which Goldman Sachs will acquire GreenSky in an all-stock transaction valued at approximately $2.24 billion at the time of announcement. The transaction, which is anticipated to close in the fourth quarter of 2021 or first quarter of 2022, is subject to approval by GreenSky stockholders, the receipt of required regulatory approvals, and satisfaction of other customary closing conditions.
- **Funding:** During the third quarter, GreenSky completed $469 million in forward flow and other asset sales.
- **Liquidity:** At September 30, 2021, the Company had $342 million of available corporate liquidity, consisting of unrestricted cash of $242 million and $100 million undrawn and available under a revolving credit facility.

About GreenSky, Inc.

GreenSky, Inc. (NASDAQ: GSKY), headquartered in Atlanta, is a leading technology company Powering Commerce at the Point of Sale® for a growing ecosystem of merchants, consumers and banks. Our highly scalable, proprietary and patented technology platform enables merchants to offer frictionless promotional payment options to consumers, driving increased sales volume and accelerated cash flow. Banks leverage our technology to provide loans to super-prime and prime consumers nationwide. We currently service a $10 billion loan portfolio, and since our inception, approximately 4 million consumers have financed more than $30 billion of commerce using our paperless, real time “apply and buy” technology. For more information, visit https://www.greensky.com.

Forward-Looking Statements

This press release contains forward-looking statements that reflect the Company's current views with respect to, among other things, the proposed acquisition of GreenSky by Goldman Sachs and the anticipated timing, results and benefits thereof; its operations; and its operating and financial performance. You generally can identify these statements by the use of words such as “outlook,” “potential,” “continue,” “may,” “seek,” “approximately,” “predict,” “believe,” “expect,” “plan,” “intend,” “estimate” or “anticipate” and similar expressions or the negative versions of these words or comparable words, as well as future or conditional verbs such as “will,” “should,” “would,” “likely” and “could.” These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. These risks and uncertainties include, without limitation, risks and uncertainties associated with Goldman Sachs’s and GreenSky’s ability to complete the proposed acquisition on the proposed terms or on the anticipated timeline, or at all, including: risks and uncertainties related to securing the necessary regulatory and stockholder approvals and satisfaction of other closing conditions to consummate the proposed acquisition; the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement relating to the proposed acquisition; risks related to diverting the attention of Goldman Sachs and/or GreenSky management from ongoing business operations; failure to realize the expected benefits of the proposed acquisition; significant transaction costs and/or unknown or inestimable liabilities; the risk of litigation in connection with the proposed acquisition, including resulting expense or delay; the risk that GreenSky’s business will not be integrated successfully or that such integration may be more difficult, time-consuming or costly than expected; risks related to future opportunities and plans for the GreenSky business, including the uncertainty of financial performance and results of Goldman Sachs following completion of the proposed acquisition; disruption from the proposed acquisition, making it more difficult to conduct business as usual or for GreenSky to maintain relationships with bank partners, other funding sources or purchasers of receivables related to, or economic participations in, loans originated by GreenSky’s bank partners, merchants, sponsors of merchants, consumers, suppliers, distributors, partners, employees, regulators or other third parties; effects relating to the announcement of the proposed acquisition or any further announcements or the consummation of the proposed acquisition on the market price of Goldman Sachs common stock or GreenSky common stock; the possibility that, if Goldman Sachs does not achieve the perceived benefits of the proposed acquisition as rapidly or to the extent anticipated by financial analysts or investors or at all, the market price of Goldman Sachs common stock could decline; the definitive documentation in respect of the backstop participation purchase facility is subject to negotiation between the parties; regulatory initiatives and changes in tax laws; market volatility and changes in economic conditions; and other risks and uncertainties affecting Goldman Sachs and GreenSky, including those described from time to time under the caption “Risk Factors” and elsewhere in Goldman Sachs’s and GreenSky’s SEC filings and reports, including Goldman Sachs’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020 and Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2021 and June 30, 2021, GreenSky’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020 and Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2021 and June 30, 2021, and future filings and reports by either company. Other risks and uncertainties affecting GreenSky include, without limitation, the extent and duration of the COVID-19 pandemic and its impact on the Company, its bank partners, merchants and sponsors, GreenSky program borrowers, loan demand (including, in particular, for elective healthcare procedures), the capital markets (including the Company's ability to obtain additional funding or facilitate additional whole loan or loan participation sales) and the economy in general; the Company's ability to retain existing, and attract new, merchants and bank partners or other funding sources, including the risk that one or more bank partners do not renew their funding commitments or reduce existing commitments; its future financial performance, including trends in revenue, cost of revenue, gross profit or gross margin, operating expenses, and free cash flow; changes in market interest rates; increases in loan delinquencies; its ability to operate successfully in a highly regulated industry; the outcome of litigation and regulatory matters; the effect of management changes; cyberattacks and security vulnerabilities in its products and services; and the Company's ability to compete successfully in highly competitive markets. The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, GreenSky disclaims any obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In light of these risks and uncertainties, there is no assurance that the events or results suggested by the forward-looking statements will in fact occur, and you should not place undue reliance on these forward-looking statements.

Non-GAAP Financial Measures

This press release presents information about the Company's Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Pro Forma Net Income and Adjusted Pro Forma Diluted Earnings Per Share, which are non-GAAP financial measures provided as supplements to the results provided in accordance with accounting principles generally accepted in the United States of America ("GAAP"). We believe that Adjusted EBITDA and Adjusted EBITDA Margin are key financial indicators of our business performance over the long term and provide useful information regarding whether cash provided by operating activities is sufficient to maintain and grow our business. We believe that the methodology for determining Adjusted EBITDA and Adjusted EBITDA Margin can provide useful supplemental information to help investors better understand the economics of our platform. We believe that Adjusted Pro Forma Net Income is a useful measure because it makes our results more directly comparable to public companies that have the vast majority of their earnings subject to corporate income taxation.

We are presenting these non-GAAP measures to assist investors in evaluating our financial performance and because we believe that these measures provide an additional tool for investors to use in comparing our core financial performance over multiple periods with other companies in our industry.

These non-GAAP measures are presented for supplemental informational purposes only. These non-GAAP measures have limitations as analytical tools and should not be considered in isolation from, or as a substitute for, the analysis of other GAAP financial measures, such as net income. The non-GAAP measures GreenSky uses may differ from the non-GAAP measures used by other companies. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measure is provided below for each of the fiscal periods indicated.

(tables follow)

GreenSky, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in thousands, except share data)

	September 30, 2021	December 31, 2020
Assets		
Cash and cash equivalents	$ 241,970	$ 147,775
Restricted cash	264,387	319,879
Loan receivables held for sale, net	327,045	571,415
Accounts receivable, net of allowance of $168 and $313, respectively	17,629	21,958
Property, equipment and software, net	22,630	21,452
Deferred tax assets, net	407,239	387,951
Other assets	124,120	52,643
Total assets	$ 1,405,020	$ 1,523,073
Liabilities and Equity (Deficit)		
Liabilities		
Accounts payable	$ 10,797	$ 15,418
Accrued compensation and benefits	16,624	13,666
Other accrued expenses	15,880	5,207
Finance charge reversal liability	139,307	185,134
Term loan	451,190	452,806
Warehouse facility	278,278	502,830
Tax receivable agreement liability	332,299	310,425
Financial guarantee liability	114,472	131,894

Other liabilities	120,695	81,169
Total liabilities	1,479,542	1,698,549
Commitments, Contingencies and Guarantees		
Equity (Deficit)		
Class A common stock, $0.01 par value and 105,659,661 shares issued and 90,015,687 shares outstanding at September 30, 2021 and 91,317,225 shares issued and 76,734,106 shares outstanding at December 31, 2020	1,056	912
Class B common stock, $0.001 par value and 94,279,039 shares issued and outstanding at September 30, 2021 and 106,165,105 shares issued and outstanding at December 31, 2020	95	107
Additional paid-in capital	115,234	110,938
Retained earnings	68,192	33,751
Treasury stock	(150,104)	(147,360)
Accumulated other comprehensive income (loss)	(3,457)	(4,340)
Noncontrolling interests	(105,538)	(169,484)
Total equity (deficit)	(74,522)	(175,476)
Total liabilities and equity (deficit)	$ 1,405,020	$ 1,523,073

GreenSky, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Revenue				
Transaction fees	$ 98,597	$ 107,538	$ 286,694	$ 299,199
Servicing	26,116	27,446	92,158	87,210
Interest and other	3,436	7,039	10,987	10,433
Total revenue	128,149	142,023	389,839	396,842
Costs and expenses				

Cost of revenue (exclusive of depreciation and amortization shown separately below)	33,867	92,728	141,799	230,410
Compensation and benefits	22,858	21,301	67,249	65,190
Property, office and technology	4,289	4,143	13,277	12,242
Depreciation and amortization	3,548	2,973	10,343	8,180
Sales, general and administrative	6,689	11,614	32,212	30,068
Financial guarantee expense (benefit)	2,033	(302)	(7,730)	28,354
Merger-related costs	5,036	—	5,036	—
Related party	435	350	1,339	1,304
Total costs and expenses	78,755	132,807	263,525	375,748
Operating profit	49,394	9,216	126,314	21,094
Other income (expense), net				
Interest and dividend income	146	157	423	1,025
Interest expense	(6,801)	(6,775)	(20,136)	(18,289)
Other gains, net	1,406	410	2,834	2,216
Total other income (expense), net	(5,249)	(6,208)	(16,879)	(15,048)
Income before income tax expense	44,145	3,008	109,435	6,046
Income tax expense	4,368	197	10,822	799
Net income	$ 39,777	$ 2,811	$ 98,613	$ 5,247
Less: Net income attributable to noncontrolling interests	25,388	1,850	64,096	3,487
Net income attributable to GreenSky, Inc.	$ 14,389	$ 961	$ 34,517	$ 1,760
Earnings per share of Class A common stock:				
Basic	$ 0.19	$ 0.01	$ 0.47	$ 0.03
Diluted	$ 0.19	$ 0.01	$ 0.46	$ 0.02
Weighted average shares of Class A common stock outstanding:				
Basic	75,670,931	69,960,268	73,372,935	66,267,288
Diluted	180,926,632	178,057,682	180,109,622	177,536,866

GreenSky, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30,	
	2021	**2020**
Cash flows from operating activities		
Net income	$ 98,613	$ 5,247
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,343	8,180
Share-based compensation expense	11,769	11,306
Fair value change in servicing assets and liabilities	(9,995)	(1,370)
Operating lease liability payments	105	(342)
Financial guarantee expense (benefit)	(20,286)	26,274
Amortization of debt related costs	2,535	1,748
Original issuance discount on term loan payment	(54)	(18)
Income tax expense	10,820	799
Mark to market on loan receivables held for sale	3,863	17,332
Other	7	200
Changes in assets and liabilities:		
(Increase) decrease in loan receivables held for sale	240,506	(508,722)
(Increase) decrease in accounts receivable	4,329	(1,442)
(Increase) decrease in other assets	(54,082)	(3,354)
Increase (decrease) in accounts payable	(4,621)	3,184
Increase (decrease) in finance charge reversal liability	(45,827)	(18,523)
Increase (decrease) in guarantee liability	(25,151)	(64)
Increase (decrease) in other liabilities	77,980	29,073
Net cash provided by (used in) operating activities	300,854	(430,492)
Cash flows from investing activities		
Purchases of property, equipment and software	(11,311)	(12,120)
Net cash used in investing activities	(11,311)	(12,120)
Cash flows from financing activities		

Proceeds from term loan	—	70,494
Repayments of term loan	(3,509)	(3,170)
Proceeds from Warehouse facility	328,781	570,000
Repayments of Warehouse facility	(553,333)	(137,160)
Member distributions	(16,746)	(50,965)
Payments under tax receivable agreement	(4,098)	(12,755)
Proceeds from option exercises	817	—
Tax withholding payments on equity compensation	(2,752)	(1,166)
Net cash provided by (used in) financing activities	(250,840)	435,278
Net increase (decrease) in cash and cash equivalents and restricted cash	38,703	(7,334)
Cash and cash equivalents and restricted cash at beginning of period	467,654	445,841
Cash and cash equivalents and restricted cash at end of period	$ 506,357	$ 438,507
Supplemental non-cash investing and financing activities		
Distributions accrued but not paid	1,570	3,470
Capitalized software costs accrued but not paid	605	435
Tax withholding on equity awards accrued but not paid	38	21
Beneficial interest in contingent consideration	19,350	—

Reconciliation of Adjusted EBITDA

(Dollars in thousands)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2021	**2020**	**2021**	**2020**
Net income (loss)	$ 39,777	$ 2,811	$ 98,613	$ 5,247
Interest expense[1]	6,801	6,775	20,136	18,289
Income tax expense (benefit)	4,368	197	10,822	799
Depreciation and amortization	3,548	2,973	10,343	8,180
Share-based compensation expense[2]	4,033	4,338	11,776	11,318
Financial guarantee liability - Escrow[3]	—	(2,382)	—	26,274
Servicing asset and liability changes[4]	1,499	368	(9,995)	(1,370)

Mark-to-market on sales facilitation obligations[5]	(6,955)	18,262	(6,174)	18,262
Merger-related costs[6]	5,036	—	5,036	—
Transaction and non-recurring expenses[7]	157	5,367	13,608	8,625
Adjusted EBITDA	$ 58,264	$ 38,709	$ 154,165	$ 95,624
Total revenue	$ 128,149	$ 142,023	$ 389,839	$ 396,842
Adjusted EBITDA Margin	45.5%	27.3%	39.5%	24.1%

(1) Interest expense on the Warehouse Facility and interest income on the loan receivables held for sale are not included in the adjustment above as amounts are components of cost of revenue and revenue, respectively.

(2) See Note 12 to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 for additional discussion of share-based compensation.

(3) Includes non-cash charges related to our financial guarantee arrangements with our ongoing Bank Partners, which are primarily a function of new loans facilitated on our platform during the period increasing the contractual escrow balance and the associated financial guarantee liability. In the fourth quarter of 2020, due to expectations that some of these financial guarantees may require cash settlement, the Company discontinued adjusting EBITDA for financial guarantees.

(4) Includes the non-cash changes in the fair value of servicing assets and servicing liabilities related to our servicing assets associated with Bank Partner agreements and other contractual arrangements.

(5) Mark-to-market on sales facilitation obligations reflects changes in the fair value in the embedded derivative for sales facilitation obligations. The changes in fair value are recognized as a mark-to-market expense in cost of revenue for the period. See Note 3 to the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 for additional discussion.

(6) Includes professional services fees related to the pending merger with Goldman Sachs.

(7) The three and nine months ended September 30, 2021 primarily include legal fees associated with IPO litigation and regulatory matter. The three and nine months ended September 30, 2020 include legal fees associated with IPO litigation and regulatory matter and professional fees associated with our strategic alternatives review process.

Reconciliation of Adjusted Pro Forma Net Income
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	$ 39,777	$ 2,811	$ 98,613	$ 5,247
Merger-related costs[1]	5,036	—	5,036	—
Transaction and non-recurring expenses[2]	157	5,367	13,608	8,625
Change in financial guarantee liability - Escrow	0	(2,382)	0	26,274
Incremental pro forma tax expense[3]	(7,346)	(1,929)	(19,787)	(3,307)
Adjusted Pro Forma Net Income	$ 37,624	$ 3,867	$ 97,470	$ 36,839

(1) Includes professional services fees related to the pending merger with Goldman Sachs.

(2) The three months ended September 30, 2021 primarily include legal fees associated with IPO litigation and regulatory matter. The nine months September 30, 2020 include legal fees associated with IPO litigation and regulatory matter and professional fees associated with our strategic alternatives review process.

(3) Represents the incremental tax effect on net income, adjusted for transaction and non-recurring expenses, assuming that all consolidated net income was subject to corporate taxation a full year effective tax rate of 23.74% and 23.9% for the three and nine months ended September 30, 2021, respectively, and for the three and nine months ended September 30, 2020, a tax rate of 25.39%.

Reconciliation of Adjusted Pro Forma Diluted EPS
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
GAAP Diluted EPS	$ 0.19	$ 0.01	$ 0.46	$ 0.02
Merger-related costs	0.03	—	0.10	—
Transaction and non-recurring expenses	—	0.03	0.03	0.05
Incremental pro forma tax expense[1]	(0.01)	(0.01)	(0.02)	(0.01)
Adjusted Pro Forma Diluted EPS[2]	$ 0.21	$ 0.03	$ 0.57	$ 0.06
Weighted average shares of Class A common stock outstanding – diluted	180,926,632	178,057,682	180,109,622	177,536,866

[1] Represents the incremental tax effect on net income, adjusted for transaction and non-recurring expenses, assuming that all consolidated net income was subject to corporate taxation a full year effective tax rate of 23.74% and 23.9% for the three and nine months ended September 30, 2021, respectively, and for the three and nine months ended September 30, 2020, a tax rate of 25.39%.

[2] Adjusted Pro Forma Diluted EPS represents Adjusted Pro Forma Net Income divided by GAAP weighted average diluted shares outstanding.

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Source: GreenSky, Inc.