Affirm Holdings, Inc.

Third Quarter 2023 Earnings Conference Call

May 9, 2023

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Michael Linford, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

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Bryan Keane, *Deutsche Bank*

Ramsey El-Assal, *Barclays*

Jason Kupferberg, *Bank of America Merrill Lynch*

Andrew Jeffrey, *Truist Securities*

Eugene Simuni, *MoffettNathanson*

Karandeep Singhania, *UBS*

Dan Dolev, *Mizuho*

James Faucette, *Morgan Stanley*

Rob Wildhack, *Autonomous Research*

PRESENTATION

Operator

Good afternoon. Welcome to the Affirm Holdings Third Quarter 2023 Earnings Conference Call.

(Operator Instructions)

As a reminder, this conference call is being recorded and a replay of the call will be available on our Investor Relations website for a reasonable period of time after the call.

I'd now like to turn the call over to Zane Keller, Director of Investor Relations. Thank you. You may begin.

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Zane Keller

Thank you, Operator.

Before we begin, I would like to remind everyone listening that today's call may contain forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including those set forth in our filings with the SEC, which are available on our Investor Relations website. Actual results may differ materially from any forward-looking statements that we make today. These forward-looking statements speak only as of today, and the Company does not assume any obligation or intent to update them, except as required by law.

In addition, today's call may include non-GAAP financial measures. These measures should be considered as a supplement to and not a substitute for GAAP financial measures. For historical non-GAAP financial measures, reconciliations to the most directly comparable GAAP measures can be found in our earnings supplement slide deck, which is available on our Investor Relations website.

Hosting today's call with me are Max Levchin, Affirm's Founder and Chief Executive Officer; and Michael Linford, Affirm's Chief Financial Officer. In line with our practice in prior quarters, we will begin with brief opening remarks from Max before proceeding immediately into questions and answers.

On that note, I will turn the call over to Max to begin.

Max Levchin

Thank you, Zane. Thanks, everyone, for joining.

I hope you had a chance to read our quarterly letter as it packs lots of great information, but I will offer a very quick summary for you. We had an excellent quarter, beat across all of the important metrics we track, while continuing to maintain excellent credit results. On the execution side of things, I'm really proud of how the team performed this quarter. We shipped well over 100 projects from pricing to new credit model to dozens of user interface improvements. In isolation, each of these wins is probably relatively small, but they compounded to huge gains.

One major project this quarter was our continued effort in rolling out Debit+. We delivered Debit+ into the main Affirm app, and while it's still quite early, we continue seeing strong signal to consumer demand. Debit+ user transaction frequency after 90 days from activation is about seven times that of a regular Affirm user. I'm truly excited about this product and what the team has planned for it and we intend to give you a significantly more fulsome update on Debit+ in the quarters to come.

Seems that there is a once in a century event that happens every week lately, rattling capital markets, but we continue to deliver great returns for our capital market partners and it was rewarded by an incremental addition to our funding capacity in the quarter, as well as in April after we closed. In short, we had a great quarter. We compounded many small wins into big gains. We're very excited about Debit+ and the overall outlook for Affirm as a Company.

Back to you, Zane.

Zane Keller

Great. Thank you, Max.

With that, we will now begin our question-and-answer session. Operator, please open the line for our first question.

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Operator

Thank you.

(Operator Instructions)

Our first question comes from the line of Moshe Orenbuch with Credit Suisse. Please proceed.

Moshe Orenbuch

Great. Thanks and congratulations. I saw in your letter, Michael, that you had a 110 basis point increase in the interest bearing GMV in the quarter and more than that if you went back six months. Could you talk a little bit about how much that will have risen by the time this is fully phased in? Also, just strategically, how does that impact both your willingness to serve certain types of merchants and your credit decisioning and what impact that could have on GMV?

Michael Linford

Thanks. Yes. We are proud of the progress that we made in our pricing initiatives. Just to recap on how this works, the first step for us is getting any caps in the way—getting those caps out of the way, allowing us to price where we think we need to price, always underneath 36%. We were subject to a number of 30% APR caps. One potential way to read that is there are six points. However, we don't intend to price every one with that amount. There is a reasonable limit to expect. That being said, we're about halfway rolled out and we've got about a point. I think a fair rule of thumb would be to double our progress today and that's a good ending spot.

In terms of the impact that those pricing initiatives have on approvals, it's absolutely the case that we get to approve more consumers, drive better conversion for our merchant partners, and grow our business faster by being able to price loans in that zone. That is our intent. Our intent would be to leverage that to protect asset yields for our Investors and still approve more volume. Part of the reason why we've seen the acceleration in our direct-to-consumer business is because of how we've been operating it, frankly, since we've been able to get that moved first ahead of any sort of merchant interaction.

Moshe Orenbuch

Thank you.

Operator

Our next question comes from the line of Bryan Keane with Deutsche Bank. Please proceed.

Bryan Keane

Hi guys. Mike, maybe you could just give us your thoughts on the guidance, in particular revenue less transaction margin, just looking at that. Then the net take rate, I know there's always some puts and takes there when I look sequentially. Or, actually, just gross take rate and then net take rate. Maybe you can just help us, walk us through between 3Q to 4Q.

Michael Linford

Yes, thanks. We had obviously a really strong quarter on revenue less transaction costs in Q3, driven in large part by our outperformance in credit. That resulted in a pretty large beat ahead of our expectations

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in the provision for losses. That was despite operating in a very volatile capital markets. We assume that Q4 will remain volatile. That's not to say that it isn't a spot where we can add capacity. We do intend to add capacity like we do almost every quarter, but it does mean that we're being very thoughtful around what we assume as we prepare a forecast in the guidance that we aren't overly reliant on things getting better in the debt capital markets for us.

What that means for us is a little bit more of a reliance or usage of our warehouse funding mechanisms into our fourth quarter. As you see in the GMV guidance, we're showing pretty strong sequential GMV growth from Q3 to Q4. In fact, from a seasonality perspective, I think even faster than what we saw last year. As we saw during our second quarter, when you have that kind of sequential growth in GMV or that acceleration quarter-to-quarter, it can sometimes push some of the economics for loans originating in the quarter into subsequent quarters. The reason why Q3's outperformance was so strong was in part because of both the volume and balance sheet strategies we had used in Q2.

Volatile markets that we think we're going to be able to continue to navigate to fund and scale the business, but will change the shape of the earning a little bit and what we saw in Q3 versus Q2, we expect to see in Q1 of next year against Q4 this year.

Bryan Keane

Got it. That's really helpful. Just as a quick follow-up, the initial rollout of Debit+, how do we think about the modeling for that and the impact? Probably obviously not much in 4Q. But when should we start to see an impact and how do we think about the modeling?

Michael Linford

Yes, we haven't broken anything out because it's not big yet. We do intend to give you better tools to model it when we have it becoming a more material part of our business. Because we're not providing any guidance in 2024, we're not doing that today. But as we talked about before, there's really two different pieces to that product. One is, it will look more like our direct-to-consumer product that we have today, just looks like an installment loan. Whether that's a Pay-in-4 or a monthly installment loan. The other would be a P&L volume, which of course will have a very different margin structure.

Later this calendar year we plan on walking everyone through how to think about modeling it and the impact it has on the P&L.

Bryan Keane

Okay, great. Thanks for taking the questions.

Operator

Our next question comes from the line of Ramsey El-Assal with Barclays. Please proceed.

Ramsey El-Assal

Yes. Thanks so much for taking my question. I was wondering if you could update us on credit reporting and buy now, pay later seems to be an area of growing interest. Just wondering if you could share your latest thoughts on that topic?

Max Levchin

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First of all, I encourage everybody to look at the report Consumer Financial Protection Bureau published just about a year ago actually, just under a year ago, where they highlighted what they like and dislike or have concerns rather about in buy now, pay later. The headline was really, hey, this is a really good product, better than credit cards. That said, their concerns specifically around stacking and furnishing, which is a fancy term for reporting credit performance back to the credit reporting agencies. CFPB expressed strong desire to see the industry figure out a way to help folks build the credits and also have accurate reporting of performance of these loans.

Actually, quite proud to share that we at Affirm are partnering with FICO, which is the maker of preeminent scores out there, to build a first of its kind credit scoring model that would enable buy now, pay later loans to be consistently transparently factored into credit and lending decisions, to be reported to the credit reporting agencies. I'm a big fan of Will Lansing who runs FICO. I really appreciate his partnership on and so we're quite excited to talk more about it when we're ready, but we intend to step into the leadership role and help the industry report buy now, pay later loans and make sense of them in the broader context of borrowing.

Ramsey El-Assal

Thank you. That's super helpful. A quick follow-up from me. There's been some media chatter about some potential consolidation in the broader buy now, pay later space. What is your house view on exploring strategic alternatives for the business? Is it something that you'd be open to at this point or maybe not at this juncture in the cycle?

Max Levchin

I'm very focused on things that I love doing versus speculating on such complicated things as strategic matters. We're very, very much heads down on just building out the product, in particular Debit+, which is, as everybody knows is my baby. I think that's where my mind is at.

Ramsey El-Assal

Fantastic. Thanks so much.

Operator

Our next question comes from the line of Jason Kupferberg with Bank of America. Please proceed.

Jason Kupferberg

I wanted to ask about the reserve ratio. It's declined for, I think, six straight quarters and can you talk about some of the drivers of the trend, of that trend? Could it move lower from here? Then maybe just remind us what drives the seasonally higher delinquencies in Q4 that you touched on in the Shareholder letter. Thanks.

Michael Linford

Yes. We're really proud of the credit results in the business and given the very short duration of our asset, the real time performance of the portfolio drives the allowance calculation for Affirm. What we're not doing is making estimates of where the economy will be in a year and building balances for that, because by the time we get there, of course, our asset turns over too fast, there'll be very little of any principal left on the balance sheet or outstanding with even forward flow partners by the time you get there.

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We don't think about credit as a long term estimate. Instead, we think about it as a more near-term reflection of the actual performance of the credit that we have out. Given our really strong delinquency performance, measured however you'd like, the allowance rate has continued to come down and we would expect that to be in-line with historical patterns from here. The seasonal factors that come into play are a little bit—it's a little bit inverted. The biggest seasonal factor is the depressed delinquency numbers you see in and around tax return season. As you get past that, you start to normalize up a little bit.

We would expect to follow the seasonal trends pretty much directly on. Our regular credit monitoring shows being right on top of the historical patterns here and feel very confident about staying within those bands.

Jason Kupferberg

That's helpful. I'm curious if you can share with us GMV growth if we exclude not only Peloton, but Amazon. If not a specific number, just directionally what it looked like perhaps versus last quarter?

Michael Linford

We're not going to provide any numbers broken out. But what I can say is that we had exceptionally strong growth in a couple of pockets. Our largest partners grew really quickly, including our partnerships with platforms like Shopify, where we actually saw an acceleration in the business. We also had a real acceleration in our direct-to-consumer business, which is obviously away from merchants like Amazon. Yet, we showed really strong growth with Amazon as well.

Jason Kupferberg

Okay. Thanks for the color, Michael.

Operator

Our next question comes from the line of Andrew Jeffrey with Truist Securities. Please proceed.

Andrew Jeffrey

Hi. Appreciate taking the question. Looks like some good momentum in Debit+ Max, which is encouraging. I think you called out in the letter 5% card present spend today. Where do you think that number can go, and is grocery still the primary category? Because it seems to me if you have a lot of success in card present, the whole nature of the business model changes. I know you're not talking about the economics of card present transactions yet. But how should we think about, is this going to be a steep ramp, longer term trend change? How are you thinking about that?

Max Levchin

Just to quibble a little bit maybe with the grocery point, I never said grocery is the primary use case. It just happens to be the thing that most of us buy a lot. I think that's necessarily a common purchase if it's a top of wallet card. The goal for Debit+ is to become the top of wallet. If you ask any Affirmer what is the most common word out of my mouth in the last three months, everyone will probably tell you frequency. What we want is consumer frequency. Eighty-eight percent of our transactions are coming from repeat consumers, that's not an accident. We will continue putting lots and lots of wood behind that particular era.

The ramp of Debit+, I think it's something that's probably premature to talk about too much right now. I'm incredibly happy where the product is, which was not the case six or nine months ago. I'm really glad we

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took the time to build it the right way. I think we need to do it right to roll it out correctly, make sure that we continue delivering on the overall Company goals while ramping up Debit+. I think it's probably a little too early to declare the shape of the curve of the Debit+ adoption. That said, I'm finally now putting in front of every one of our users that qualify for it and quite excited about that.

Andrew Jeffrey

Okay. Helpful. Then Michael, we're watching equity capital required as a percent of the platform funding creep up here. Can you comment on that? I assume we're not going back to 10%, maybe clarify that and also just discuss how you think about life of loan profitability given some of the shifts in funding?

Michael Linford

Yes. With respect to equity capital, it is creeping up and above our long term goal of 5% and nowhere near 10%. We don't intend to run the business anywhere near that number. I think we said that last quarter, I'll just keep repeating it and thank you for the question because I know it's on people's minds. We don't want to run a business with that much equity capital. Today, we have a pretty low leverage, let's say a low advanced rate funding strategy with our warehouse lines, for example,

That's a lever that we could pull in the future if we continue to feel like we're operating in this environment and need to use balance sheet. But today it hasn't been a priority for us because, firstly, we have adequate liquidity with over $2 billion of cash and securities available for sale and obviously our economics on loans that we put on the balance sheet actually do return higher to us overall. Those two factors we're not really too worked up around it today, something that the team will get work on in the future if the current market continues to operate like this.

In terms of the total loan economics in this funding environment, we feel really good about it. You saw this quarter's revenue less transaction costs being a little over the midpoint of the 3% to 4% range that we've talked about. We're going to oscillate quarter-to-quarter with an—or an admittedly high degree of volatility, but none of that takes away from our confidence in that 3% to 4% range. If you think about the question that was asked at the very top of the call, our ability to get those pricing initiatives over the line and realize will offset a healthy amount of the headwinds that we're experiencing in the capital markets broadly.

Andrew Jeffrey

All right, thank you.

Operator

Our next question comes from the line of Eugene Simuni with MoffettNathanson. Please proceed.

Eugene Simuni

Hi, guys. Thank you. Thanks for the question. I wanted to ask a relatively high level question. Great to see strong credit performance over the last couple of quarters. I think it gives evidence to what you guys have been always saying, your ability to really control credit outcomes. That's great to see. If that's (inaudible) pool, I think the natural question becomes, is there an opportunity to tune the needle to make the credit performance a little bit worse, but volume (phon) growth, which perhaps is something that would be desirable.

Would love if you can give us your latest philosophy on that, what opportunity do you see there, especially as we exit the volatile times hopefully that we are in today and maybe gives you a little bit more opportunity to turn that dial? I'd love to hear your thoughts on that.

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Max Levchin

Great question. First of all, I hope the world is listening because saying the same thing for a very long time and printing quarter-after-quarter of good credit returns. At some point, I think people will believe us, but until they do and well after it, credit is always job number one, probably through number five. I think as a non-depository lender, it is our responsibility to deliver good returns to our capital partners to make sure that they never have a second thought about partnering with us.

That's philosophically at the very, very top of what matters to us. We have a mission. That mission has everything to do with delivering honest financial products to improve people's lives, but the only way we can achieve that mission is by having strong capital market partnerships. The way we get that is through having consistent and really strong credit performance. That's ultra important, no compromise there.

The question around, is there pockets of growth, if I can put words in your mouth, with credit as a sort of chip to cash in. The short answer is, I think we'll know a lot more in the coming few quarters. On the positive side of things, the economy is basically fully employed. The inflation, knock on wood, tomorrow's news or whenever the next CPI print is, is not negative, but it does feel like the Fed is actually succeeding, if maybe not as quick as they would like, in doing their job and tamping inflation down. Meanwhile, the labor market held up. If that continues, that maybe does look like soft landing, and that would be quite excellent for all involved.

There are lots of things that could go wrong. For example, the student loan repayment that's going to hit us sometime July, August time frame impact a lot of consumers. We want to make sure that we are prepared for either side of that equation. The good news is that the reason we have such control over our credit outcomes is because we are structurally just really, really short duration. As we see the next change in the weather vane, we know how to tune credit approvals to make sure that we stay within the bands that we must stay.

The slightly unrelated, but—or related but a slightly different answer to your question though, I said it last quarter a little bit and tried to highlight it in the letter this time around, we have an enormous amount of opportunity in growth that has nothing to do with credit. A lot of the acceleration you see in consumer, some of the really successful performance we've seen with our partners, Michael mentioned that our business with Shopify accelerated this quarter, a lot of that has nothing to do with credit. In fact, it has everything to do with optimizing every little bit we can, like you would be either bored to tears or excited by the pipeline of projects that we've put forth on just every possible metric of the business that has nothing to do with credit performance.

I promise I'll keep this short as I can, but just a very, very quick walk-through of what it means to actually apply and get approved for a loan with Affirm. You find us typically up funnel. There's a thing we call as low as, which is basically an opportunity to prequalify. That's about three screens, then you get to check-out. That's apply for a loan, you get your selection of terms. You select one, then you go to—if it's a new sign-up, identify verification. If not, a behind the scenes identity verification, then you see a truth in lending disclosure. Then you have to agree, then you sign up for auto pay or type in your payment credentials.

Every one of the—it's a huge amount of steps. It's actually a product that needs to be simplified more, and we're working tirelessly on it. That's also why I'm so excited about this card because a lot of these steps are completely disappeared with the card product. But online, each one of these steps has a conversion rate. I am not kidding when I tell you I can rattle off every one of these steps, conversion rate, what it was and what it will be when we're done with the work. It's something that keeps me excited and up at night because there's so much opportunity to just get more people through the funnel. We'll continue investing in that relentlessly. Credit is not for playing games with.

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Eugene Simuni

Got it. Got it. Very helpful. Then for a quick follow-up, very interesting to see direct-to-consumer highlighted, kind of at the top of the letter this time. It sounds like great progress in Debit+. Can you talk a little bit about direct-to-consumers strategically? The way you laid it out in the Shareholder Letter, it sounded to me like the sequence of consumer engagement is still going to be merchant—through merchant first and direct-to-consumer then second. Am I interpreting that correctly? Or are you also going to be focusing on finding merchants who just engage directly through direct-to-consumer?

Max Levchin

You're 100% right. What I attempted to do in the Shareholder letter is to lay out the flywheel. One of the greatest things about Affirm, since the very beginning of time, is we have no cost of user acquisition. Merchants promote our product to their shoppers that they hope to turn into buyers because we're able to approve the right number of shoppers and help them buy. As these consumers come back to us, we have a chance to introduce them to new products.

Card is the single most important one. That is the thing that we're working so hard on, and we're now seeing real fruit of our labor. With an Affirm card, Debit+ in their physical wallet, in their electronic wallets, in their browser, autofill, everywhere can possibly put it, the consumers come back to other merchants, whether they are integrated or not. One of the really, really important things that I think I ultimately edited out because the letter was getting longer than I wanted to, but it's really worth highlighting, the card will work. All the Affirm functionality will work at any merchant even if that has absolutely nothing to do with the Affirm integration.

Pick a favorite brand where Affirm is not yet offered. All you need to do is sign up for the card, which is now basically available to anyone. Bring your card to that site or to that store, and you suddenly have both pay now and buy now, pay later functionality on a single payment device. But the flywheel is merchant integration, consumer transactions, consumer repayment gives us a chance to market Debit+ to these consumers. Debit+ becomes the universal access to Affirm at any point of sale.

Eugene Simuni

Got it. Very clear. Thank you.

Operator

Our next question comes from the line of Rayna Kumar with UBS. Please proceed.

Karandeep Singhania

Hi. This is Karan Singhania, dialing in for Rayna. Thanks for taking my question. Can you just tell us a little bit about what's going on with the capital markets? Any updates there? Any change in invest in the line for securitized consumer credit assets?

Michael Linford

Yes. The good news about the capital markets is that we demonstrated in our 23A Deal and the recent reopening that when structured correctly and timed correctly, we're able to access the ABS market, I think, really constructively. Qualitatively, the Investor sentiment was exceptionally positive in our 23A reopening. Our team did a really good job in working with Investors and executing in that market.

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Quantitatively, that particular transaction was three times oversubscribed. Those are all really positive signals. But it's important to put that transaction in context of the broader capital markets and macroeconomic conditions. We did that transaction in between the failure of Silicon Valley Bank and the sale of First Republic. I think that it is the case that these things do not impact us directly on a first order basis, but credit spreads for all asset classes, including ours, are going to widen in times of these moments of pretty peak economic dislocation.

It is just an unfortunate reality of the world right now that things are extremely volatile. That being said, we did execute those two transactions I mentioned in between these pretty severe economic events. We are confident that we can continue to do so, but nonetheless, it will remain volatile. We're also adding net new partners in our funding ecosystem, adding warehouse funding capacity from net new institutions and expanding existing relationships with our existing funding partners.

I would just leave you with the idea that it's volatile. Obviously, spreads are widening, and that will offset some of what we expect to be a declining rate environment going forward. But nonetheless, still able to fund the business, which is always job one for our capital team, and we've done that excellently.

Karandeep Singhania

Understood. Maybe just as a follow-up, can you comment on what's driving the uplift in the Debit+ usage? Is it just something that consumers are resonating with the product's value proposition or is there something else?

Max Levchin

We've built out really great products that we've put in front of, at this point, lots of consumers, many of whom have told us over and over again that they would love to use Affirm at their favorite grocery, at their favorite off-line store, at a website where a competitor might be integrated, but they prefer Affirm. Debit+ is the unlock to use Affirm anywhere you like, online and offline. It's gaining popularity, and we're very excited.

By the way, just to be very clear, this is very much V1. The road map for Debit+ spans years. We have a lot to build. This is not even remotely the final movement of that particular thing.

Operator

Our next question comes from the line of Dan Dolev with Mizuho. Please proceed.

Dan Dolev

Hey, guys. Excellent quarter. I love the acceleration in revenue less transaction costs. Great job there. A quick question guys and Max, like I think you're guiding to a slightly lower revenue less transaction cost in the fourth quarter. Long term you're still saying 3% to 4%. Can you maybe bridge us just how to get to that long term? What do you envision to get to that sustained long term? Thank you.

Michael Linford

Yes. We still feel very confident about 3% to 4% in the long run. This quarter was again, the higher end of that range and also ahead of our expectations that we had provided guidance for in February. Yet, we do forecast a sequential reduction in that as a percentage of GMV into next quarter. But again, I think the two factors to think about are when we have a sequential growth in GMV and we use our warehouse funding that means that we provide the provision for the loans that originated upfront. We are a little bit back end in how those are earned. That is very similar to what you saw in Q3.

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We were benefiting in Q3 from the origination and balance sheet strategy in Q2. We anticipated a similar trend to play out for Q4 versus Q3. Then separately, it is just the case that we have a very volatile capital market. Our guidance is always going to try to assume what we think we have a high degree of confidence in. We have a lot of sensitivity to our ability to execute there. When we think about building guidance and our forecast, we're pretty careful about making sure we have, in the model, the deals that we expect to be able to complete in the quarter.

Dan Dolev

Got it. Thank you. Great results. Appreciate it.

Operator

Our next question comes from the line of James Faucette with Morgan Stanley. Please proceed.

James Faucette

Hey, everybody. Thanks a lot for all the color and questions today. Given your APR cap increases that I think you said across half of roughly your merchants, two things associated that with that. When do you expect that to be complete? How much incremental application demand is that allowing you to convert? Any metrics you could share there?

Michael Linford

Yes. On the first, I don't think that we're ever going to get to 100%. Complete is probably like never. We're going to keep moving forward and try to continue to expand it, but we don't expect to ever be at 100% of our merchants for a variety of reasons we can go into. But we do anticipate continuing to make progress with respect to merchant amendments to allow us to go up 36%. We've a lot of wood left to chop, and we're going to keep working on that between now and the rest of this calendar year.

When you think about what that does for approvals, it's a pretty simple answer with really complicated math. The simple answer is, we try to maintain the same level of unit profitability. The extra revenue allows us to approve proportionately more and offsetting the associated credit losses you'd expect in those marginal populations. We do think about it on a portfolio basis. It is obviously something that allows us to create a lot more economic yield across the portfolio and approve more consumers as a result.

It is also the case that we need some of that to offset the rising cost of funding and maintain the unit economics that we need. Not all of it will go to expanded approvals. Certainly, there are a set of approvals that we simply can't and don't want to approve, right? A consumer defaulting on a loan is a bad outcome that we seek to avoid. We're never going to recklessly approve a consumer who we think will.

That being said, it is the current posture of the business given the credit tightening that we've done do allow us to be expansionary with any 36% cap.

James Faucette

Got it. I appreciate that. Then just quickly on trends. I know that you mentioned that you'd seen strong services in travel, although a little bit of weaker performance in discretionary. Has that changed at all or worsened maybe for discretionary through April and the first few days of May?

Max Levchin

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I think the short answer is no. We're not seeing particularly significant movement in either direction. Travel remains very strong.

Michael Linford

Yes. Other color on the quarter. We mentioned our strength in direct-to-consumer, our guidance definitely points to that trend continuing where we also have strength in some of our large partnerships that are either accelerating or still growing at very, very fast clips. Travel and ticketing remains a real bright spot. We continue to see weakness in sporting goods overall. Although as we get through the next quarter, we do have what used to be our largest partner, will now be less than 1% of our GMV going forward and becomes very trivial. Some of the sporting goods headwind will become a lot less of an impact in the GMV growth rate of the business.

Then obviously, categories like home and lifestyle and electronics continue to be in a pretty suppressed levels when thinking about their comparisons. We do think that as you get to Q3 of next fiscal year, we will get to about nine months from now, you will begin to lap a lot easier comps. We're optimistic that by the time we get there, some of those businesses will return to some solid growth. But for now, the headwinds there continue.

James Faucette

Great. Thanks for that.

Operator

(Operator Instructions)

Our next question comes from the line of Rob Wildhack with Autonomous Research. Please proceed.

Rob Wildhack

Hi, guys. With Debit+ out in the wild now, can you give us some additional color on the unit economics there? How they fit into the 3% to 4% RLTC as a percentage of GMV that you have in the core business?

Michael Linford

We do plan on giving a very detailed breakdown for Investors later this year, not today. But again, think about the products, GMV, the stuff the looks like installment loans will sit within our framework today because they are very similar loans, and they should have similar economics, similar funding requirements, similar—it's more of what we do every day. The volume that we call pay now that comes out of the consumers' accounts a few days after they swipe the card, those will have different economics. Today, that's not the majority of the volume running on the card. But we'll watch that closely and give Investors a way to think about modeling that as it becomes material.

Rob Wildhack

Okay. Then I noticed that you reaffirmed the commitment to positive adjusted operating income exiting this year. If you think about or look to that over the medium term, what's the current line of thinking on the level of reinvestment you need to continue to scale versus your ability to generate real operating leverage and start to drop some of that more and more to earnings?

Michael Linford

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It's a good question. As you saw in this quarter and our guidance kind of implies, we expect to continue to drive real leverage in G&A. Sales and marketing on a non-GAAP adjusted basis will continue to be slightly volatile in that some of our co-marketing commitments are a little bit more episodic. You'll see that number kind of bounce around a little bit. But over time, still showing re-levered. But the area of the business that we do intend to continue to invest in is tech data analytics that enables growth in the business both in the near term, enabling us to add infrastructure and acquire more data, but also hire engineers and product managers to build product to change the world.

We are going to keep doing that, and we intend to keep our foot on the gas with the technology side of the business and showing leverage in the other parts. We've not given a framework for what that means in terms of bottom line profitability growth or the trend of adjusted operating income, but we do intend to update Investors on that later this year.

Rob Wildhack

Okay, thank you.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the call back to Zane Keller.

Zane Keller

Well, thank you, everybody, for joining the call today, and we look forward to speaking with you again next quarter.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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