



Fourth Quarter Fiscal 2024 Earnings Call

August 28, 2024

Call Participants

Affirm

Zane Keller, Head of Investor Relations
Max Levchin, Founder and Chief Executive Officer
Michael Linford, Chief Financial Officer

Analysts

Jason Kupferberg, BofA
Reginald Smith, J.P. Morgan
Ramsey El-Assal, Barclays
Will Nance, Goldman Sachs
Andrew Bauch, Wells Fargo
Robert Wildhack, Autonomous
Kyle Peterson, Needham
Dan Dolev, Mizuho
James Faucette, Morgan Stanley
Timothy Chiodo, UBS
Matthew O'Neill, Financial Technology Partners

Presentation

Operator

Good afternoon, and welcome to the Affirm Holdings Fourth Quarter Fiscal 2024 Earnings Call.

Following the speakers' remarks, we will open the line for your questions. 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, Head of Investor Relations. Thank you, Zane. You may begin.

Zane Keller, Head of Investor Relations

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, Founder and Chief Executive Officer

Thank you, Zane.

Obviously, we had a killer quarter in fiscal year, on both growth and profitability sides of the ledger. As is our custom, the better the results, the less canned comments I'll offer. There are some really good new stats in the letter that Michael and I penned, so please have a look at that.

One thing though that's not in the letter that I did want to share, to build on the great momentum that we're having, to help us continue to scale in the long-term, we're evolving our leadership structure a little bit. Very excited to share that our Chief Financial Officer, Mr. Michael Linford himself, will be taking on an expanded new role as Chief Operating Officer for Affirm. For now, he will remain our CFO, but today, we also have the talented and handsome Mr. Rob O'Hare, a veteran of the Affirm finance team joining us on this call for a reason. I expect Rob to take on the CFO role by the end of this fiscal year, still reporting to Michael. Please make Rob feel welcome. He's a good man and thorough.

Back to you, Zane.

Zane Keller, Head of Investor Relations

Thank you, Max.

With that, we will now take your questions. Operator, please open the line for our first question.

Operator

Thank you. Our first question comes from the line of Jason Kupferberg with Bank of America. Please proceed with your question.

Jason Kupferberg, BofA

Hey, thank you, guys. Good to see these numbers. I was curious if you could comment just as we think about fiscal 2025 guidance, just your general approach to assessing what the credit environment might look like. You obviously continue to control that extremely well.

Maybe as part of that, in this category of fiscal '25 assumptions, I know you said that B2B and some other newer initiatives, including the Apple Pay partnership are not expected to be material. But can you maybe tell us a little bit more about how you guys define material, because it sounds like there may be something in the numbers for it, but would just love to unpack that a little bit? Thank you.

Max Levchin, Founder and Chief Executive Officer

Thank you. Great compound question. As is our custom, I'll give some high level answers and Michael will probably contextualize it a little bit better than I can.

In terms of credit, just a friendly reminder to everybody, these numbers are not an accident. We decide what we want to see. Obviously, there is variability, but we have a really short-term exposure. Our consumers don't borrow money from us for too long. Every transaction is underwritten separately. We are by design and definition in control of our credit outcomes. What you see today are the numbers that we wanted to have and we're happy with them. We'll continue to do exactly the same thing. Every time we plan our credit outcomes, we tell ourselves what it is that we want to see in the DQs and that's what we typically end up with plus or minus minor noise.

In terms of setting guidance, we did this last year, and we thought we kind of got the right solution or the right formula, and we repeat it again this time. We set the floor. As risk managers, we are inherently conservative people. We like to guide all of you to a number we feel is pretty well baked, we will get there. Then we turn around and tell the team we got to do much better than this. We got to beat this number. This number is in the bag. Let's do—go, go, let's do better. That's what happened in fiscal '24. That is our plan for fiscal '25.

Now the thing that makes this a fun place to work at, lots of things change. There will be something that's going to fall out of our plan for '25 because some really cool opportunity is going to come up and we'll prioritize the opportunity, and we'll part ways temporarily with whatever it is that the opportunity will take the place of. None of that is in the guide by design. We are putting in the guide what we think we will get to with a really good degree of certainty. That's the philosophy. Michael can probably give you a little bit more color if he wants.

Michael Linford, Chief Financial Officer

Yes. I think you see the growth rate implied in the Q1 guide is—obviously those things are reflective of where we've actually seen progress for initiatives that have shipped and are already contributing. That's where we're seeing an acceleration in GMV in Q1 so far.

I think the broader question around the new initiatives, things like B2B and our partnership with some of the wallets, the question materiality, I should clarify is low end material. We're not trying to use any sort of strict definition here. But for us, it would really need to be hundreds of millions, billion dollar type range before we start thinking about it as influencing the trajectory in a material way.

When we look at a lot of these opportunities, they're either not yet shipped, as is the case with several of our wallet partnerships where they are not live yet. We don't think it's prudent to try to guess the timing of those in terms of their impact. We retain a lot of confidence on how big they will be eventually, but are being very mindful around setting guidance that is stuff that's live in the ground and contributing today or that we have control and direct line of sight to, as opposed to things that could take a few quarters to roll out and therefore have more uncertainty to them. I think whether it's the wallet partnerships or any of our international initiatives, we're confident on the size and scale of those or else we wouldn't be spending time on them. But we're communicating to you that if they do end up being material that would actually be material upside to the outlook that we provided for the fiscal year.

Jason Kupferberg, BofA

Very helpful. Thank you, guys.

Operator

Thank you. Our next question comes from the line of Reggie Smith with JPMorgan. Please proceed with your question.

Reginald Smith, J.P. Morgan

Hey, good evening, and thanks for taking the question. I guess we've seen the business perform in a rising rate environment. I'm curious how you're thinking about the business in a potentially falling rate environment. I'm curious around two things really, consumer spending, and then thinking about—I know you guys price each transaction uniquely with the APR. I'm wondering if there may be some benefits to your model versus traditional credit cards, where the rates are pegged to the prime rate. Is there any area for play in there in terms of pricing on the way down? Thank you.

Max Levchin, Founder and Chief Executive Officer

Thanks, Reggie. Great question as always. There's a huge amount of benefit in not being tethered to a single price that was handed to you in the form of a line that flows precisely with the Fed Funds rate. The coupling is unnatural. We've always said it from the very beginning, this idea that you negotiate your credit card rate even if it's floating, kind of once and for all, basically, and the merchant negotiates their acceptance rates once and for all, is foolish. We live in a connected real time world, why wouldn't we be negotiating these rates in real time? That's what we've built and that's why Affirm is successful, that's our innovation.

As the rates move writ large, as they go up, obviously, we end up having to pass some of the cost through as it hits us to consumers. Practically, what this means that at some point, someone who would have been approved will not be approved because the price is just not the number that we want to put. We have limits. We don't want to go above the Military Lending Act number. That's a decision we made a long time ago and don't plan to change.

As the rates come down, the very first consumer side impact will be better approval rates. Pricing is always fungible. We price things in real time. We can change it as we go. But the most exciting thing about reduction in the Fed Fund Rate is we'll just have more active users. We'll have more new users. We'll have more repeat users because we'll be able to approve more people.

Michael Linford, Chief Financial Officer

The only thing to add is the rate at which the rates change is very important. We saw a very quick rise in rates as rates went up, and you saw us react to those changing rates on the timeline we talked about. We're very well positioned now to be reactive, such that if they were to move that quickly again, I think we could move very quickly. But that's not in our assumption set. We don't believe that will happen. I think we're talking about here a change in direction of rates more than the magnitude for the time being. Very little change in the near-term based upon the moves that have already been priced in by the market.

Operator

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

Ramsey El-Assal, Barclays

Hi. Thanks so much for taking my question this evening. RLTC fell nicely above your range this quarter and I know you called out a presumably nonrecurring \$30 million benefit from a single securitization. What are the key puts and takes we need to consider for RLTC performance in 2025? Sort of in your internal planning, what are shaping up to be the bigger variables to keep in mind? Do we need to see Fed rates come down; funding costs come down a certain amount? Do we need to see credit performance hang in at certain levels? Where are the pressure points next year?

Michael Linford, Chief Financial Officer

Yes. Great question. Again, on Q4, we did do a non-consolidated securitization. We don't do those every period. When we're able to do them, you do have a little bit of a chunky benefit, which pushed us slightly over the 4% range we'd like to think about as the ceiling. When you take that out, the RLTC rate in Q4 is pretty consistent with the guidance that we gave for Q1. We think it's pretty stable sequentially. The big puts and takes are mostly related to mix of business that we are originating on the platform and the associated credit outcomes and then how we execute in the capital markets.

I think the team has done a phenomenal job this past 12 months in broadening our access to really attractive capital sources and that's been done with ABS deals, been done with forward-flow deals and we continue to think there's lots of opportunity for us to do more here. Certainly, if we're able to do that, we can deliver strong margins. We are signing up for a 10 basis point expansion in the RLTC percent of GMV

versus last year and we feel like that's possible because of a lot of the full year benefit of the—and work that we've taken on, plus the fact that we do think we're in a very strong position with respect to the capital markets.

Ramsey El-Assal, Barclays

Got it. Thank you.

Operator

Thank you. Our next question comes from the line of Will Nance with Goldman Sachs. Please proceed with your question.

Will Nance, Goldman Sachs

Hey, guys. Nice results today. I appreciate you taking the question. I wanted to follow-up on the—dovetailing off the earlier point around having a lot of control and visibility into the credit outcomes that you expect when you set the underwriting targets. I thought the stats—in a different direction, the stats in the shareholder letter around the number of repeat users and repeat transactions increasing over time I thought was interesting.

I'm wondering if your visibility into forward volume is increasing to a similar way where you now have a much better picture about how the volume trends might shake out over the coming year. I just thought it was interesting the increases in number of transactions per user and the number of repeat users. How is that impacting the way that you look at the business internally and plan for the coming year?

Max Levchin, Founder and Chief Executive Officer

If we're honest, kind of—if you look at the gaps between those cohort curves, they're pretty big, which means that we're not yet struggling, if you will, to improve those numbers. The fact that we are driving this outsized gain just means that there's a lot of work to do. The way we think about what's going to happen to the Affirm card, for example, right now, we're on the order of \$3,000 of annual spend. The right number from my point of view is \$7,500 at least, and on the order of 20 million active cards. That's the target. When we get there, I don't know, but that is what I think is both possible and required for us to succeed.

Are we going to get there in fiscal '25? Probably not. Certainly not making any promise on that front, but the leaps that we're showing in these charts speak for themselves. They're big. That means there's a lot of opportunity. We forecast what we think we'll get and that's in the guide. We got some really cool ideas and not a lot of them are going to work.

Will Nance, Goldman Sachs

Got it. I appreciate it.

Operator

Thank you. Our next question comes from the line of Andrew Bauch with Wells Fargo. Please proceed with your question.

Andrew Bauch, Wells Fargo

Thanks for taking the question, guys. Wanted to talk about the sources of operating leverage there in the guide here. You're calling for 18.4% AOI margins. I think that's a little bit better than what you had previously been guiding for, for the growth above 20%. Just wanted to get your thoughts on that as given the current growth profile and the strength of that number.

Michael Linford, Chief Financial Officer

Yes. I think the one thing that we as a leadership team are really proud about is just how quickly we made progress on operating leverage in the business. I think we had a lot of conviction of where we would get to for a long time. The pace at which we were able to get there over the past 12 months has been phenomenal, and the Q4 results, I think, are a great data point on that trajectory. I think that we feel that continuing to expand our margins is good discipline. With it, gives us the focus we need to actually operate better.

The things that temper that are we do have a ton of opportunity ahead of us. We don't want to operate at terminal margins. We do want to show progress. I believe that at the JPMorgan Conference last May, this May, I outlined that we would expect to continue to expand margins. We're signing up for 200 basis points this year and feel like we still have quite a bit of runway of margin expansion to do into the future and that would just be tempered with the opportunities that we have to invest, in particular, in continuing to expand our team.

Andrew Bauch, Wells Fargo

Good stuff, guys.

Operator

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

Robert Wildhack, Autonomous

Hi, guys. Maybe to take the earlier question on rate cuts and funding costs connected to the '25 outlook, could you give some color on how much the current rate curve and expectations might be benefiting approvals in fiscal '25? In that light, how much it could benefit the growth outlook?

Michael Linford, Chief Financial Officer

It's a good question. We do not take into account the rate curve, i.e. future market expectations of funding costs, into our decisioning explicitly. It does get reflected as we negotiate capital deals, the market expectation of rates does get reflected into those deals. It affects our average cost of funding, which, in turn, affects our decisioning. But we don't—we're not looking out and saying with two rate cuts on the

horizon, let's go get more aggressive. Instead, we look at our current funding costs and compare them to what we need to generate to be profitable on a transaction basis.

There is an important reason why these things flow through, albeit on a lagged basis. A lot of the funding sources we have are not floating rate funding facilities. Our ABS deals, for example, have fixed costs of funds. It will take a while for the deals that we've done over the past year, year and a half to be refinanced in the next two years. The funding costs are a bit stickier which means it doesn't flow through quite as immediately as you might think.

Robert Wildhack, Autonomous

Okay. Thanks. Would that mean then that if you get to say Spring 2025 and rates are a lot lower than they are today, there would be potential upside on approvals, because of the lower interest rate environment and lower funding costs?

Michael Linford, Chief Financial Officer

With one caveat. If the reason why rates are being cut is because we're in a perfect economic scenario then yes. But of course, I think, we're mindful of the fact that a thing that's probably happening in that scenario is some pressure on the labor market, which has been very, very tight, it begins to loosen. We, of course, would need to take into account that as we think about where we set approvals.

Robert Wildhack, Autonomous

Okay, very helpful. Thank you.

Operator

Thank you. Our next question comes from the line of Kyle Peterson with Needham. Please proceed with your question.

Kyle Peterson, Needham

Great. Good afternoon, guys. Thanks for taking the question. I wanted to touch a little bit on the outlook and particularly your growth expectations between the merchant network and card network revenue and interest in gain on sale and such. I guess which bucket are you guys expecting to be a bigger contributor to growth in FY'25? Just how should we think about the split between the revenue streams?

Michael Linford, Chief Financial Officer

The thing that changes the mix across revenue streams is either the mix of originations and therefore the associated loan content and then the capital strategies behind it. As we lean a little bit more on gain on sale or get better pricing gain on sale, you see the gain on sale line go up. Equally as you have maybe higher MDR bearing loans, you'll see some increases there. I think really, it's difficult to identify, and we're not giving guidance on which line item for you to model out. But the root cause is that we made the asset more valuable. When you make the asset more valuable, you monetize it at a higher rate, and that's why

we do think there's about 10 bps of more revenue, so flowing all the way down to the revenue less transaction cost part.

Kyle Peterson, Needham

Got it. That's helpful. Thank you.

Operator

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

Dan Dolev, Mizuho

Thanks. Great quarter, guys, and then congrats on the GAAP profitability in the fourth quarter. I wanted to ask about Apple Pay Later. I think a couple of years ago when they announced that they're getting into Buy Now Pay Later, the Affirm's stock was under pressure. Two years later, they capitulate, and you guys are handling the volumes. Is there, maybe you can talk, Max, a little bit about like the fact that it's much more difficult to do Buy Now Pay Later than a lot of people think that it's just a product without a brand and without the ability to take risk appropriately because it sounds like from an Apple perspective, there's much more to Affirm than what a lot of people were thinking.

Max Levchin, Founder and Chief Executive Officer

Thank you, Dan. Give Dan full credit. He totally front ran my GAAP surprise by apparently correctly predicting it. Nice note. On the Apple side, I don't think they're capitulating. I think they, if anything, are saying this Buy Now Pay Later thing is huge and important and it's not a feature. It's a major thing that is just as important as credit cards and maybe, I certainly think, it is more important than credit cards because it's the better way.

Creating a platform for companies like Affirm to deliver the product with all the bells and whistles, with all the unique things that we know how to do well, is a very smart strategy. I don't think it's backing out of something; it's embracing the fact that this is a complicated really, really textured set of offerings that works in different ways for different audiences.

There are a couple of things that don't meet the eye readily, in our business, that every time I think I've explained, I find that people don't necessarily fully understand, so who knows. But to repeat the thing that I do try to explain on and on. Underwriting is hard. You got to get data. You got to get it in real time. You have to verify it for both validity and accuracy and timeliness and all that good stuff. It's a real complicated thing that we do here really well. We've been at it for 13, 14 years almost now. That's our DNA. People talk about AI as if it happened yesterday. We've been in what used to be known as AI for a lot longer than it was a thing that people throw around as a reason to lay off their employees. We use a lot of machine learning, and we do a lot of good work there. That's hard. Unless you're really focused on it, you're not going to do as well as a specialist like we can.

Part two, which is to call out and give props to our intrepid sales team, there's enormous effort involved in signing up merchants because what we offer is really incremental, but it's also really complex. We're

coming to them and saying, credit cards cost you a couple of points. You should give us 3.5%, 5.5%, 7.5%, major slices of your margin for transactions that we promise you will be really, really incremental. The way we're going to make it work is not by giving consumers flat out cash back or discounts or all the sort of tired credit card tricks, we're going to give them access to credit on extraordinary terms, with no APR at all or really low subsidized APR that's going to matter to a certain consumer in a really big way. We're going to do so transparently at the point of sale as they make a decision, all that's going to come together, is going to help them decide. It's going to help them get off the sidelines and buy right now and help you, Mr. and Ms. Merchant, drive more volume.

That is something you find out once you have been in the market and realize that, hey, this is actually what makes this product so special. The ability to, in real time, transfer part of the margin the merchant is willing to invest in a transaction to the consumer in a form of benefit. Having a real time network of hundreds of thousands of merchants that do that willingly because they've measured incrementality is really powerful. That's what we spent the last decade doing in addition to building real AI. That adds up to a lot of work and people that think it's the coolest thing to work on. I think creating a platform for companies like ours to deliver that through the world's most popular phone, the world's most popular wallet is awesome. I'm obviously super stoked about what's happening there, but it's most certainly an embracement if that's a word versus a walk away. Sorry, for a bit of a rant.

Dan Dolev, Mizuho

No. This is super helpful. Amazing results and congrats again on the promotion for both Rob and Michael.

Operator

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

James Faucette, Morgan Stanley

Thanks very much. I want to build a little bit on that last point there, Max. And just ask in a more generalized way, how you're feeling right now about the composition and profile of your customer base? What are you thinking about in terms of ways and tools including some of those promotional capabilities you talked about to expand and maybe even improve such that you can get even beyond that Affirm Card level of \$7,500 in annual spend to something even better than that.

Max Levchin, Founder and Chief Executive Officer

We definitely have no shortage of ideas. Let's see. I think I'll try to keep it short because it has a real danger of becoming a very long-winded answer and I feel like I spent that bullet on the last question. We think of our consumers in segments. We obviously think everybody should throw away their credit card and start using Affirm more often. But different consumers we have, have fairly different financial profiles and different needs. We have catchy nicknames for all of our segments, but practically, some people need access to credit and care a lot about things like lower monthly payments and more time to pay back and the fact that we don't charge them late fees if something happens, and they need a little bit more time to pay back. Then on the other side of the spectrum, there are people who say, hey, I understand time value of money. I'm a sophisticated consumer of credit and I will transact if you give me a 0% rate. Those two are

not the same person. They live in different segments. There are different products that excite those people in profoundly different ways.

Affirm Card is a great platform to offer all of those promotional vehicles to every segment. We think it's a universal product that we can bring, but you will see us in the coming weeks, really and months, launch more and more features within the Affirm Card footprint that speaks to different segments in fairly different ways. You'll see 0% deals available to folks that we know really respond to those. We will offer longer clients to pay to those that really need that. That is available to our merchants as a configurable set of tools. We used to talk a lot about adaptive checkout. It's sort of old news. It doesn't even get a mention in my letter, but it's still the cornerstone of a lot of our payment delivery technology. We have new products that we launched - Pay in 2, Pay in 30. We have a few more that we're going to roll out. All of that will live to serve our merchants to sell more merchandise in the way that converts the best with each consumer segment.

At some point, I think, there will be full automation for merchants to just say, hey, let me give you X dollars and just get me as much conversion as you possibly can. That's my vision for the Nirvana of merchant spend - almost like buying AdWords, like here's my dollars get me some transactions. Here's my dollars, get me some conversions. We're obviously not quite there yet, but that's the direction which we're headed. The underlying tools for each segment will necessarily be different and that's by design. We understand our consumer a lot better because we understand what they're buying through SKU level data, et cetera.

Michael Linford, Chief Financial Officer

I would really encourage everybody to read the cohort engagement charts we have put in the letter. Everything Max mentioned is things that we're working on into the future to make it better. The stuff that's already in the ground, the products we already have out there are making great progress towards increasing engagement. It really jumps out at you when you start looking at just how much more engagement the recent cohorts have and the consistency with which the cohorts have grown in their engagement with us over time speaks to the underlying value of what we do for these consumers and why we have a lot of confidence that we'll address more and more of their purchases over time.

James Faucette, Morgan Stanley

That's great color. Thank you.

Operator

Thank you. As a reminder, please press star, one to ask a question at this time. Our next question comes from the line of Timothy Chiodo with UBS. Please proceed with your question.

Timothy Chiodo, UBS

Great. Thanks for taking the question. I wanted to circle back on Apple Pay a little bit. Totally appreciate that for a specific customer, you might not want to go into too much detail, but I was hoping you could talk a little bit about the expected user experience with Affirm being at, I believe, at the onset maybe one of the main or only options for U.S. online commerce. But the idea would be that over time, consumers

using Apple Pay would have multiple options maybe other Buy Now Pay Later options, but also, some of the card-based installment offerings.

If we could just talk about the user experience, there and maybe the drop-down menu, if you will. Then the second piece is around the unit economics, if the full range of products will be offered throughout that channel so that we should expect the unit economics to be still in that 3% to 4% range, maybe absent some degree of revenue share back to Apple? Thanks a lot.

Max Levchin, Founder and Chief Executive Officer

I'll try to answer it in reverse order. Well beyond the Apple Pay, which, by the way, not launched yet. Maybe I'll take it in the order you did ask. Not my role or right to unveil changes to our partner's product. Apple will undoubtedly deliver a beautiful experience, just given who they are, we'll be a part of it. We're excited and proud to be and we'll all see exactly what it looks like when it rolls out, which hopefully will be reasonably soon now.

On the economics part of it, beyond Apple Pay, beyond any one major partner, we are not a wallet by design and definition. We are an ingredient brand. We are in that sense at least similar to Visa, Mastercard, AMEX, et cetera, which means that we have an inherent channel conflict. When you go to a particularly wallet-friendly website, you might find Affirm offered directly. Affirm Card will be accepted because everyone takes Visa, you might find Apple Pay soon enough with us in it and Shop Pay because that's also available now off Shopify, at least in some retailers. Then there's Amazon Pay. Then there's Google Pay where we're also integrated and so on and on it goes. We aspire to be in every one of those channels, which means that when we compute the overall revenue less transaction cost metric, we have to account for the possibility that the consumer will walk through any one of those doors.

We've been consistent in guiding to this idea that the business works really, really well between 3% and 4% when it gets over 4%, random securitization successes and time shift notwithstanding, above 4%, it's a little too rich, we shouldn't really be not investing those dollars and we're not approving enough people basically. Below 3% starts looking less attractive for us as shareholders. It will stay within 3% to 4% independent of the doors consumers will walk through. That is certainly how we think about the business. When we enter any one of these giant partnerships and we've been extremely fortunate, not entirely accidentally proud to call giant platforms, retailers and wallets, our partners. We create systems and levers to help us navigate financial reality. We don't clearly know exactly the credit profile of the customer. We have expectations. We have hopes, but we don't know who's going to apply and precisely what approval rates we will be able to deliver et cetera. As a result, we always structure these partnerships to make sure that in the end, it all adds up to 3% or 4%.

Timothy Chiodo, UBS

Perfect. Thank you, Max.

Operator

Thank you. Our next question comes from the line of Matt O'Neill with FT Partners. Please proceed with your question.

Matthew O'Neill, FT Partners

Thanks for taking my question, Max and Michael. Just wanted to focus in again on the I guess what you bolded in the shareholder letter around the intention and expectation to be profitable in this fourth quarter and therefore beyond and dovetail onto some of the discussions that were had at the Investor Day around a longer-term aspiration of formalizing as a bank and so forth. Does this accelerate that plan at all? Is that still something on the medium-term timeline? Any thoughts around that would be helpful. Thanks.

Max Levchin, Founder and Chief Executive Officer

For the avoidance of doubt, we do not need to be a bank to conduct our business in the way that we'd like to conduct it. That is one of the many routes available to us, under the right circumstances, but it is not in any way a requirement, that is not a thing we are marching towards in any particular—the day we decided we're going to become a bank, we'll tell all of you, hey, we decided we're going to go become a bank. That has not happened and that's not what we're saying.

GAAP profitability is really important and momentous. I would like the record to show that it involved no contortionism. It's actually a really important thing that as a—in this very moment, I want people to understand. We didn't roll out of bed and said, well, gosh, now we have to go get GAAP profitable. We've been saying for literally years and years that we are on this track to make more transactions happen. The unit economics are great. If we can get enough transactions, we multiply that by the margin of each transaction, it's going to exceed both the fixed and then eventually the rest of the costs in the business.

Now we can see it so clearly, we are unafraid to say, hey, here's what's going to happen. But it is a commentary on a natural course of the business while we invest all of our available cycles and dollars in growth, managing credit and all the things that we do here. As much as it—I put it in bold because I wanted people to know we take it seriously, we mean it. We are absolutely going to get there. We feel great about where the business is. But in no part of it is a, oh, fine we'll cave. We were always on this journey and now we see a destination. Beyond that we'll have another reveal. I don't know what it's going to be. Probably won't be returning bank, by the way, but it will be something else and something interesting, some kind of financial metric, Michael, will come up with, or Rob will come up with, actually. By then he'll be CFO.

Matthew O'Neill, FT Partners

Understood. Thank you.

Operator

Thank you. There are no further questions at this time. I'd like to pass the call back over to Zane Keller, Head of Investor Relations.

Zane Keller, Head of Investor Relations

Thank you, everybody for joining the call today. We look forward to speaking with you again next quarter. Thank you.

Operator

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