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Affirm Holdings, Inc.

Fiscal Year 2022 Second Quarter Earnings Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Affirm Holdings' fiscal year 2022 second quarter earnings conference call. At this time all lines have been placed on mute to prevent any background noise. Following the speakers' remarks, we will open the lines 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 Ron Clark, Vice President of Investor Relations to begin.

Ronald Clark, *Vice President, Investor Relations*

Thanks, 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 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 as a substitute for—GAAP financial measures. Reconciliations to the most directly comparable GAAP measures can be found in today's earnings press release, which is available on our investor relations website.

Hosting today's call are Max Levchin, Affirm's Founder and Chief Executive Officer, and Michael Linford, Affirm's Chief Financial Officer. With that, I'd like to turn the call over to Max to begin.

Max Levchin, *Founder and Chief Executive Officer*

Hello, and thank you for joining us on this earnings call.

Affirm is just a handful of days away from its tenth anniversary, and this earnings report also marks the first anniversary of our public debut. While the road ahead of us is significantly longer than the one we've traveled so far, the occasion does warrant a moment of reflection on the execution of our strategy during the last 12 months.

We feel great about our progress. We remain quite un-pivoted and focused on delivering long-term, compounding value to all our stakeholders: consumers, merchants, employees, and shareholders.

As we introduced ourselves to the public markets a year ago, we talked about several key themes:

First and foremost is our mission, which is to deliver honest financial products to improve lives and to do so while delighting the people we get to serve every day. Because the opportunity embedded in our mission is still so vast and open, consumer growth is very important to Affirm. We've done very well: indeed, our Active Consumer growth accelerated, growing by 150%, to provide well north of 11 million people with a smarter way to pay. Growth for us is never "just" about getting the next million consumers. It's also about the impact we can have on the financial well-being of the folks who rely on Affirm.

We have also talked about our other, all-important constituent: the merchant. Affirm is as much a safe and transparent pay-over-time option for the buyer, as it is the ultimate marketing tool for the seller. We help our partners drive meaningful incremental sales without needing to resort to gimmicks or discounting. The number of active merchants on our platform is another key measure for Affirm, and over the last year, we've significantly expanded our reach. There too, we accelerated, with a more than 20x increase from a year ago, and a 64% increase from the rolling 12-month tally we reported just 90 days ago.

As a company founded by engineers, we focused early on investing heavily in technology, scalable enough to economically support the smallest of businesses, all the way up to the world's largest retailers.

We've continued this policy of investment and development in pursuit of technological competitive superiority. This strategy is working and delivering results. In fact, our technology is what has enabled us to work with tech-savvy giants, such as Walmart, Shopify, Amazon, and Target.

We estimate that this year Affirm processed 1.6% of all U.S. online transaction volume for the Black-Friday-Cyber-Monday period, another triple-digit increase from last year – simultaneously a momentous number and a signifier of just how early we are in this market. Even a decade in, the ramp-up to the holiday shopping rush is an intense-yet-exhilarating exercise in scalability preparedness—each year's Black Friday weekend brings by far the greatest number of concurrent transactions we've ever experienced.

I am very proud of our engineering teams for delivering another flawlessly-executed, record-breaking Black Friday weekend and also grateful to our friends at Shopify Engineering who had lent some of their technical expertise to us as we prepped in the days before.

It is an oft-repeated adage that product innovation slows down as companies go public. I am pleased to report that we were able to accelerate our product delivery since the IPO. We've rolled out Cash-Back Rewards for participating merchants, delivered the unique Adaptive Checkout, launched the Affirm Super App, and the Affirm Chrome Extension, and introduced the beta version of super-simple, consumer-friendly Crypto Savings.

You may have also noticed the announcement of Visa being the launch partner for Debit+, now in the initial waitlist rollout. Though I will continue to caution you to (not yet) get crazy forecasting this products' impact on our P&L at scale, I do have a fun insight to share:

On average, the number of weekly transactions by a Debit+ consumer (excluding our own employees) is better than an order of magnitude above that of a "regular" Affirm user. Of course, these are enthusiastic early adopters, and we fully expect the number to normalize… but it's exciting to see first glimpses of what Affirm as a daily instrument might look like. We remain very excited about the future of this product and expect to talk a lot more about it this year.

We'd said last year that BNPL is an international phenomenon, and we intend to bring Affirm's unique no late fees, no gotchas, no regrets approach well beyond our home borders. Over the last 12 months, we've solidified our industry leadership with PayBright by Affirm in Canada and launched in Australia, our first non-North American market.

And the growth of the business continues to accelerate.

Affirm had more than 168,000 Active merchants on our platform as of the end of calendar 2021, largely thanks to our partnerships with online commerce platforms. In aggregate, Affirm is now present on sites that account for more than half of all U.S. e-commerce and that number continues to march higher every day.

In our second quarter, year-over-year GMV growth accelerated to 115%, from 84% in the first fiscal quarter. Moving beyond the testing phase of our collaboration with Amazon before the holidays was a significant driver of this growth. However, if you exclude Amazon, our GMV still doubled year over year.

We are highly cognizant of the fact that over 80% of commerce is still conducted offline. Our recently announced partnerships with Verifone and Adyen are just two of the numerous investments we are making with our partners to bring honest financial products to consumers at the physical point of sale. We're also expanding the ability to use Affirm in-store with our own products—like Debit+.

Our focus on using exceptional technology to drive growth and improve efficiency has been a winning strategy for Affirm, and we never stop finding ways to optimize and deliver even more value. This shows up in our results in a number of ways from new partnerships to longstanding relationships. For example, over the last three years, our relationship with Walmart has grown as we proved the value of our products. We expect similarly great things from our other major partnerships with time.

As we develop with and learn from each customer, we are excited to bring these learnings and the products they engender to all merchants—big and small. The strength of our network is measured in merchant coverage and repeat consumer engagement, both of which are rising rapidly. We grew total transactions by 218% and transactions per active user by 15% year-over-year, even as we added a tremendous number of new consumers.

Our momentum is strengthening, our strategy is working, and we are extending our lead. We intend to double down on the three key things that got us here:

1. Deliver unique and delightful financial products that align fully with our mission;
2. Continue to be the partner of choice for merchants that care about intelligent growth, scalability, reliability, and;
3. Deepen our underwriting advantage.

Speaking of underwriting. We manage risk. Though we are an easy-to-understand tool to maximize one's personal capital, and the retail marketer's best friend, at our core, Affirm is ultimately a risk-managing business. We facilitate the transaction, settle with the merchant soon thereafter, and bill the buyer over a predetermined period of time.

But wait, there is more! When we charge interest (which we don't always do) we don't compound it into principal! Moreover, we don't compound interest after it reaches the amount we communicated to the consumer at purchase time. We refund interest when the buyer pre-pays! We don't even charge late fees!

These are all deliberate choices, made in the first few days of our company's life – we meant to align ourselves with our consumers in this manner, avoiding the moral hazard of capitalizing on their mistakes for revenue opportunities. These decisions are as on-mission and moral as they are self-serving: these policies are an important part of why our consumer satisfaction is so high, and we only want it to go up.

With these self-imposed guardrails, exceptional underwriting and risk management frameworks are a requirement. That's why we underwrite every transaction before making a credit decision, unlike some of our competitors in the BNPL space, who readily admit they do no underwriting at all.

It's also important to understand that, unlike many players in our industry, we do not treat delinquencies or defaults as an outcome of our business decisions. Indeed, we choose acceptable delinquency rates as an input into much of our business decision-making, based on pricing we command with our customers, our read of the macroeconomic conditions, and demand for our loan volume in the market. This distinction may seem subtle, but I think it really helps to understand our approach to risk.

We spent the last decade building what we believe to be one of the best-in-class credit underwriting ecosystems: data, tools, processes, and teams that deliver underwriting models with some of the very best results in the industry. Today, I'll pull a bit of the curtain back a little—and while I will keep it very high level (in part to avoid giving out trade secrets!) feel free to tune out for a few minutes while I nerd out.

Affirm's underwriting advantage begins before any of our models are interrogated for a decision, with our product design. Because Affirm is predominantly offered at the point of sale, we have a natural opportunity to explain our value and transparent approach to the consumer. As a result, we avoid much of the adverse selection that often comes with traditional lending. Coupled with SKU-level data we receive from our partners, our models tend to split the risk far better than those used in traditional consumer loans.

Another fundamental structural advantage Affirm has is its total separability of transactions: unlike providers of lines of credit, we underwrite transactions individually, modeling a consumer's ability to pay us back as well as their propensity to do so. This notion of separability is also recursive, a consequence of our product: because repayment schedules are highly predictable, our models operate at an individual installment level. This separability is a powerful tool for modeling as well as managing risk: we are able to deliver a reliable forward-looking picture of both consumers and our own cash flow.

Our proprietary network of directly integrated merchants (as well as other sources of non-traditional underwriting data) offers us a significant raw data advantage in feature engineering. We maintain a library of over 500 features that we select from as we create new models or update existing ones, while continuously looking for and eliminating any potential for disparate impact in our decisioning, both at individual variable and model level.

We train our models using academically well-understood gradient boosting technique, with significant proprietary modifications we've invented that help us improve results. Because from the very beginning, we've focused equally on consumer and merchant information, we ended up with a large number of models that are specific to our products and merchants who use them. Moreover, as we launch new products with new and existing partners, we acquire new types of data that we incorporate into the models, and over time give incremental weight to.

Underwriting models decay over time, as macroeconomic conditions and consumer behaviors change. Even the very best-performing ones can lose a few percentage points of their area under the curve every few months. Over the years we've built special-purpose models that track model decay, the machine learning equivalent of a canary in a coal mine. Our proprietary software and processes allow us to rapidly retrain, retest, and redeploy models where the performance has deteriorated, in a matter of days.

To illustrate this, let's take a side-by-side look at ITACS (one of our longest-serving proprietary models) versus a traditional credit scoring system, like FICO. Using ITACS, reducing originations by 10% would eliminate a third of all delinquencies (in dollars), while using the traditional credit scoring system would only reduce delinquencies by a mere 13%. Let's take it a step further, if we were to reduce originations by 30% using ITACS, we would remove 70% of all delinquencies, while the traditional score would only catch 36%. So needless to say, this model slopes a lot better than the traditional industry standard.

These achievements may sound quite abstract, but they have a very real impact. With our superior underwriting capabilities, Affirm can approve many more college students buying tickets to see their parents after months of pandemic isolation and young parents picking up their first stroller.

And, because Affirm's average loan duration is, by design, very short, at just 5.2 months, the exceptional precision and recall of our credit models give us great confidence that our portfolio (both retained and sold) will continue to perform well in the future.

Any use of advanced technology has both advantages and risks associated with it. As we push our model performance further in pursuit of expanding our offerings, we work just as diligently on ensuring that our models are both compliant with all applicable laws and rules, and that our model decisions are both reasonable and are understandable by consumers. We regularly audit our models to avoid correlation with prohibited bases, and have them audited externally. We also invest heavily in explain-abililty of model outcomes—so that both regulators and consumers can understand our decisions easily.

None of this of course would exist without the extraordinary team of people that make it all possible. I am truly fortunate to have been able to start this company with a group of brilliant minds who in turn attracted more and more talented folks to join our mission and bring their mathematical (and other!) talents to bear.

It is this embarrassment of riches among our teammates that makes me so optimistic about the next decade of Affirm. Large as some of these numbers are, Affirm still accounts for around 1% of U.S. e-commerce, and both consumers and merchants are genuinely excited to get more value from Affirm. And, we are excited to deliver it.

As usual, I want to thank my team for all their amazing work, and, even during some pretty volatile moments for our stock price, for staying truly focused on the long-term value creation for all our stakeholders, and on our mission.

Now on to Michael for the numbers.

Michael Linford, *Chief Financial Officer*

Thanks Max, and good afternoon, everyone.

Our second quarter results demonstrate a massive step change in our network scale driven by our partnerships with the largest enterprises and our technology advantage.

Growth accelerated on both sides of our network, as Active Consumers more than doubled, while Active Merchants increased more than 20 times. Frequency increased alongside that explosive user growth, Total transactions grew 218%—the fastest rate since our Series D private funding round. We grew GMV 115% and Revenue by 77%. In November, we completed the roll out of our initial offering at Amazon in the U.S., and even excluding Amazon's contribution, we significantly exceeded our outlook for both GMV and Revenue. Unit economics were also strong. Revenue Less Transaction Costs grew faster than revenue, up 93% from the prior year, and even as we accelerated network growth, we continued to operate with efficiency, reducing the equity capital we use to fund our loans by 17% versus last year.

With the accelerating growth of our business and the early traction with our enterprise partners, we are raising our outlook for fiscal year 2022, which I will share more about in a moment.

But before I do that, let's walk through the second quarter results.

Unless stated otherwise, all comparisons refer to our second fiscal quarter of 2022 versus Q2 of fiscal 2021.

We had another great quarter for consumer growth. Active Consumers increased 150% to 11.2 million, and increased 2.5 million sequentially from fiscal Q1. Despite adding users at this aggressive pace, we grew transactions-per-Active-Consumer by 15% year to year and more than tripled the number of transactions.

More merchants, platforms, and brands are leveraging the power of Affirm to grow their businesses. In the second quarter, Active Merchants grew to more than 168,000 from just 8,000 last year, thanks in large part to the scaling of our partnership with Shopify. On a sequential basis, Active Merchants—which we calculate over a trailing 12-month timeframe—grew 64% from the September-ending quarter.

Turning to GMV...

We grew GMV to $4.5 billion in our second quarter, a $2.4 billion increase from last year. The 115% increase includes the volume from our partnership with Amazon. We completed the launch of our interest-bearing program at Amazon in November, ahead of Black Friday. And, while the program is still in its infancy—with a long roadmap of optimizations to work on—we have seen rapid consumer adoption. We look forward to years of growth from this collaboration.

We have strong momentum across our business. Excluding Amazon, GMV doubled with growth across all products and verticals. I would also note that our business with Peloton—our second largest merchant partner by GMV in the quarter—was up against an unusually strong prior-year comp following the launch of a new product slate, and boosted by COVID tailwinds.

As a testament to the increasing depth and breadth of our network, no single merchant accounted for more than 10% of Q2 GMV. One year ago, we discussed how we would expand into higher frequency purchase areas and diversify our merchant partnerships. A year later, I'm really proud of how our team has delivered on these objectives for our shareholders.

Shifting to industry verticals...

We had a phenomenal holiday season. We more than doubled our volume for Black-Friday-Cyber-Monday, and we believe we took significant market share from both traditional incumbents and BNPL pure plays. As Max shared, we estimate that Affirm facilitated 1.6% of total online transaction volume for the Black-Friday-Cyber-Monday period in the U.S., and we saw particular strength in key holiday categories in Q2:

Travel and ticketing increased 314% from last year, topping last quarter's high mark, even despite the emergence of the Omicron variant. General Merchandise grew 368% above last year, driven by our deepening partnerships with the industry's largest retailers and the launch of our offering at Amazon in the U.S. Consumer Electronics—which grew 209% year to year—was another great story driven by strong demand for TVs, laptops and gaming consoles.

Our results this holiday season highlight our ability to take share and grow in any environment and—importantly—why we're so different from the competition.

Outside the U.S., we had another outstanding quarter. Our Canadian business more than tripled in size, thanks to existing and new partnerships, including Apple, which launched in the fall to brisk consumer demand. In the second quarter, we also entered the Australian market with Peloton and look forward to growing our business with them there.

This quarter, our interest-bearing program—which includes our initial offering at Amazon—grew significantly, up 124% year on year to $1.4 billion. Before I jump into the financials, let me walk through the mechanics of this offering to illustrate its impact on the income statement.

On the revenue side, we monetize these loans by either holding them to maturity or selling them to third parties. When we hold the loans, we primarily earn interest income, which we recognize over the duration of the loan. Hence, this quarter's revenue reflects just a portion of the total yield we will ultimately see from the GMV we generated in Q2. We will recognize the balance over subsequent quarters. As an illustrative data point, we sold 59% of the interest-bearing loans generated in the U.S. this quarter, and retained the remainder.

On the expense side, we provision for credit losses up front. For loans we hold, this means that the margin profile is back-end weighted.

Our partnerships with our key enterprise merchants are unlocking more opportunities for our business every day and we are investing today to realize their full long-term potential. While we are just in the beginning stages of scaling these partnerships, we are already seeing them drive network expansion and we expect them to deliver strong unit economics when they reach scale.

Now, turning to the financials...

The strong GMV growth also drove strong revenue growth. Net revenue grew 77% to $361 million, well above our outlook. Total Network revenue grew 39%, while Interest Income increased 87% and Gain on Loan Sales rose four-fold. Revenue as a percentage of GMV contracted 170 basis points to 8%, driven by product mix. Split Pay grew over 4 times year on year, and accounted for more than 20% of GMV in the second quarter from just 11% last year. In our Earnings Supplement posted to our Investor Relations website, you will see that Merchant Revenue take rates have remained relatively consistent for each of our offerings.

On the expense side, we continued to grow Revenue faster than Transaction Costs delivering real leverage.

Total Transaction costs of $177 million grew 63% year-over-year compared to revenue growth of 77%, and excluding Provision for Credit Loss, Transaction costs as a percentage of GMV declined 190 basis points to 2.8%. Given the mix shift from longer-duration 0% APR, Loss on Loan Purchase commitment declined 4%, while improvements in our Capital program helped limit the growth of Funding Costs to 47%.

Provision for Credit Losses grew from $13 million one year ago to $53 million, as the year-ago figure included a $39 million release of excess COVID-related loan allowance, while this year's figure reflects the intentional normalization of credit that we have discussed over the past several quarters. Over the first half of the fiscal year, we have managed delinquencies of thirty days or more to remain below the same periods of fiscal 2019 and 2020, even as we have expanded the credit box to more normalized levels compared to the early days of the pandemic.

Our strong top-line growth and the leverage we achieved on Transaction Costs drove a 93% increase in Revenue less transaction costs to $184 million—above our outlook range—or 4.1% of GMV.

Looking at Opex beyond Transaction costs, we continued to invest in building our team and elevating our brand. We doubled headcount to more than 2,000 Affirmers and increased marketing around the holidays. Our teams have delivered a torrent of exciting new offerings, while our brand campaign drove greater awareness across all age cohorts and helped us reach the highest aided awareness among BNPL providers at 45%. Growing our team resulted in higher personnel costs and stock-based-compensation. In Q2, Total Operating Expenses exclusive of Transaction Costs grew $258 million, of which $158 million was related to D&A, stock-based compensation, warrant expense and one-time expenses related to our IPO and acquisitions. Excluding these items, non-transactional Operating Expenses grew 109%.

On a GAAP basis, Operating Loss was $196 million, which compares to a loss of $27 million last year. Adjusted Operating Loss was $8 million in the quarter compared to $3 million of income in the prior year.

Now turning to our balance sheet, we fortified our cash position and delivered accelerating GMV growth while continuing to manage our capital with discipline and efficiency.

In November, we issued $1.7 billion in zero-coupon senior convertible notes with a five-year maturity, which has significantly increased the capital we have to invest in growth, at an extremely attractive long-term borrowing cost, while minimizing dilution.

Our effective capital markets programs and disciplined approach helped reduce Equity Capital used to fund our business from $277 million last year to $230 million, even as loans on the balance sheet grew by more than $500 million. As a percentage of Total Platform Portfolio, Equity Capital Required declined to 3.6% from 7.5% last year.

Total Platform Portfolio grew 72% from $3.7 billion to $6.3 billion at the end of Q2, and we increased our overall Funding Capacity in line, from $4.7 billion last year to $8.8 billion. Over the past year, we brought on $1.9 billion in new loan buyer commitments from both new and existing capital partners. Our balances held by third-party loan buyers from our forward flow program grew 129% to $3.7 billion, while our securitization program grew 83%. Our warehouse balances declined 24% as we continue to focus on more efficient funding vehicles.

Before I move to our outlook, I want to touch on an important topic that has been top-of-mind for investors: interest rates.

While potential interest rate hikes have dominated headlines, we remain confident in our ability to continue to grow rapidly, while delivering strong economics as rates rise. Our Financial Outlook already reflects the roughly 180 basis-point increase embedded in the three-month LIBOR forward curve, and our long-term model—which calls for Revenue Less Transaction Costs of 3-4%—also assumes rate normalization.

We have significant advantages to help mitigate the potential impact of rising rates, including…

- Broad and diverse funding partnerships that allow us to shift funding to less rate-sensitive counterparties,

- Sophisticated underwriting and risk-management infrastructure that allows us to manage unit economics with changes to our cost environment, and...

- High-turnover, short-term assets that make our portfolio inherently nimble and able to react quickly to changing market conditions.

At a constant product and funding mix, we estimate that a 100 basis-point increase—beyond the increase implied by the current yield curve—would only result in a 10-20 basis-point impact to Revenue Less Transaction Costs as a percentage of GMV for the remainder of fiscal year 2022.

Looking out to fiscal '23, we believe that a further 100 basis-point rate increase—again, beyond current expectations—would only result in an approximately 20 basis-point impact to Revenue less transaction costs as a percentage of GMV based on our current funding and GMV mix. And, that is before we apply any of the numerous offsets we have, including consumer and merchant pricing, funding strategies, and credit optimizations.

Looking beyond fiscal year 2023, at our current funding and product mix, we estimate the impact to Revenue less transaction costs as a percentage of GMV to be approximately 40 bps for every 100 basis points of rate movement beyond the current forward curve. And, again, that is before applying cost, credit, and revenue optimizations.

Now, turning to the outlook...

Our business has never been stronger, and as we look to the remainder of our fiscal year, we are raising our Financial Outlook to reflect the robust second quarter results, accelerating momentum in the business, and we are now including Amazon's expected contribution to our Outlook.

For fiscal year 2022, we now expect GMV to be between $14.58 to $14.78 billion, representing a 76 and 78 percent increase from fiscal year 2021. Given the strong traction we are seeing with Shopify, we now expect our Split Pay offering to comprise 15-20% of total GMV for the fiscal year.

We expect Revenue of $1.29 to $1.31 billion, representing year-over-year growth of 48% to 50%.

We expect Transaction costs of $705 to $715 million, resulting in Revenue less transaction costs of $585 to $595 million dollars. This reflects the continued mix shift we are seeing in the business.

We expect an Adjusted Operating Loss as a percentage of total revenue of 12% to 14% percent, as we continue to invest in the long-term growth of our business....

...and weighted-average shares of approximately 285 million.

Consistent with Max's remarks, our outlook does not assume a material impact from the rollout of Debit+.

We also expect a very strong fiscal third quarter, with:

- GMV of $3.61 to $3.71 billion, which would represent year over year growth of 74% to 79%,
- Total Revenue of $325 to $335 million,
- Transaction Costs of $187 to $192 million,
- Revenue less Transaction Costs of $138 to $143 million,
- Adjusted Operating Loss as a Percentage of Revenue of 19% to 21% and...
- Weighted-Average Shares Outstanding of 290 million.

In closing, we just posted an incredible quarter of growth and our team is seizing this momentum to continue to deliver on our mission. I'd like to add my thanks to the great work all Affirmers delivered this quarter.

Max and I will now open the line for questions.

Ronald Clark

Before we open it up for Q&A, I want to briefly address the earlier than customary issuance of our earnings press release today.

Due to human error, a small portion of our Q2 results were inadvertently tweeted from Affirm's official Twitter account earlier today. Because of that, we felt it was appropriate to release our full financial results as promptly as possible thereafter, rather than waiting until after the market closed.

With that, I'll turn it over to Doug to begin the Q&A session.

Operator

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

James Faucette

Great. Thank you very much.

I guess my first question is, obviously the December quarter was massive for you guys. But the outlook doesn't seem as comparatively strong, especially the March quarter and particularly if we're now incorporating more split pay from Shopify and Amazon, etc. Can you walk us through kind of that dynamic, especially on a sequential basis? I mean, is this seasonality, more than expected drag from Peloton, impact of revenue timing on Amazon and others? Just kind of help us understand the sequential evolution of the business.

Michael Linford

Yes. I'll grab that one.

I think to start off, we're very happy with the pace of scaling in the network. The Q4 results, as you said, were pretty spectacular—sorry, calendar Q4 results were pretty spectacular. It was indeed a special quarter. We are reiterating our guidance, and taking it up. So our outlook continues to improve for the balance of the fiscal year. We're still well in excess of the growth phase. We're in the hyper growth phase for the stock. So we feel really good about the scaling that we're doing. Yes, there are impacts of seasonality. Calendar Q4 tends to be heavier with holiday shopping. As I shared in my remarks, we had a really strong holiday season.

There's a little bit of sequential impact there. Yes, the growth in interest-bearing will tend to create some back-ended-ness to both the revenue and margin profile of those originations. But again, I think we're very happy with the pace at which we're scaling and we're certainly not focused on or concerned with the next quarter. We're really looking about where this network will be over the next decade.

James Faucette

Then, Michael, this is probably also for you, and I think both you and Max highlighted that there's been a lot of questions around interest rates. But a lot of the other questions have to do with delinquencies, etc. As you said, you're kind of close to your target. But we noticed that the most recent update, at least in the supplement, indicated the percentage of 30-day delinquency started to turn down and away from kind of your 2% target in recent weeks. Is that purely because of the nature of the incremental mix from the likes of Amazon, or better consumer repayments, or are you tightening the credit standards? How should we expect that to evolve in coming quarters?

Michael Linford

Very good question. If you look at the chart that we have in the supplement, you can see the seasonality curve of delinquencies, and there's actually quite a bit of seasonality tied to both the shopping seasons and the repayment schedules that happened. We're back to a more normalized seasonality curve with respect to what you see in delinquencies.

To reiterate the point, I mean, we're very happy with the credit outcomes we're driving right now. We take a very intentional approach here and we have intentionally been loosening the credit box over the past year. We're still below '19 and '20 numbers, Fiscal '19 and '20, and feel really good about the level of delinquency in light of the total unit economics that we're driving.

The only other thing I'd add is that, we really do manage to a total portfolio number here. There's a bit of a misunderstanding we think out there with folks looking at not the portfolio delinquencies, but looking at one securitization vehicle or one particular slice of our business. We are very thoughtful about portfolio construction that goes into any one of our funding vehicles. Each one has a unique profile based upon market demand and our needs. For example, the split pay content may change. We made pledge loans that have some delinquency, etc. So no one securitization data set can really represent the portfolio and I would really encourage everybody to look at our Investor supplement to see a real view of portfolio-wide DQs.

James Faucette

That's great, Michael. Thank you very much.

Operator

Our next question comes from the line of Timothy Chiodo with Credit Suisse. Please proceed with your question.

Tim Chiodo

Great. Thanks for taking the question.

Michael, you touched on this a little bit in your prepared remarks in terms of Slide 13, which has the merchant fee rates. You're right: overall, most of the lines are pretty stable. I wanted to see if we could just touch on a few of them that are moving around a little bit. Specifically the dark blue, which is the split pay, seems to be ticking up a little bit in terms of the take rate. I was thinking maybe that could be related to Shopify. Also the purple line, which is the Core IB, just ticking down a hair may be related to Amazon. Then if you could help us maybe elaborate on either of those and also the green, the non-integrated virtual card, would really appreciate that context.

Michael Linford

Yes. The last we have the least amount of control over. That really is a function of the network interchange that we earn. I think you nailed it. The line that you see on split pay merchant fee rates up versus Q1, we were promotional with Shopify in particular in Q1, but really up even year on year back to the fiscal Q2 in 2021. So we feel really good about our resiliency with respect to the most competitive space, which is the split pay product set.

The IB line that you point out is a function of the growth that we have in our largest enterprises. We would earn less there than we would everywhere else. Part of the reason we're so confident in how we're growing is those two things mix in our favor, where you've got a lot of growth in the split pay offering with really high merchant fees, and you have a lot of user growth that comes along with that, combined with these enterprise scale offerings that will drive tremendous processing volume as well as in the long run we think really strong economics.

We feel really good about the mix, really want Investors to understand that when you have the sort of major shifts in the mix in the portfolio, it will shake out differently in the income statement.

Tim Chiodo

Thank you. Point well taken there on the various mix dynamics. I appreciate it.

Quick follow-up is on processing costs. So fully appreciate that the Shopify revenue share will hit in that line item, which could cause a little bit of upward pressure on that specific expense line. But a potential offset could be reduced card mix within their loan repayment. Is there any potential for you to work with someone like a Plaid or a Finicity to help increase the mix of direct bank account repayment?

Max Levchin

Yes. There is a potential. I was just starting to fall asleep, because you guys are asking Michael excellent questions, and he's doing a great job answering them. Sorry, the long and short of it is, it's exactly right. The way I think, and the goes back many years now, the way we look at our transactional economics is in incredible for (phon) dimensions, one is of course lifetime consumer kind of managing credit side of it. On the ROA basis, you have to look at the charge-offs that you incur, and Michael touched this really well, and it's a whole lot of my script, but basically we manage it to a number. We decide what that's going to be, and we drive that to a basis points that we like per product, per merchant, etc.

After you're done with that you look at your other costs, and servicing is the one where we're always really hesitant to mess too much, because you want the consumer experience to be amazing. Obviously, over time we'll optimize that to a perfect number, but the sort of the high-touch white glove services we have created is really, really valuable to us. We're completely ruthless on the rest of it.

The repayment cost is something that just screams 80 basis points away. You're totally right, there's lots and lots of opportunity. The repayment devices or vehicles are not all created equal. There's some really interesting innovation happening even sort of beyond ACH, which is currently kind of the most popular/cheapest one. So we will absolutely do a lot of things there.

It is more important in this whole story of this quarter we're reporting and going forward that we're still taking enormous amounts of white space. The growth of the network is what we are grading ourselves on right now. We are paying attention to cost at scale, be it real dollars, and we'll invest in a reduction of these costs involved. We guess pretty well where opportunities are.

Tim Chiodo

Excellent. Thank you, Michael and Max.

Operator

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

Ramsey El-Assal

Hi, guys. Thank you so much for taking my question this evening.

I wanted to ask about the spread between volumes and the revenue less transaction costs, and just kind of get your expectations about where those kind of yields should sort of trend and shake out over the next few quarters. Where do they exit the year? What should we think about in terms of next year modeling them out? If you could comment on that, it would be very helpful.

Michael Linford

Yes. We're not ready to give guidance for 2023. So I'll avoid that one. But I think the guide that you see and the results we just posted, we talk a lot about the long-term economics of the business being somewhere between 3% and 4% on a revenue less transaction cost basis. We're on the higher end of that last quarter and inside the guidance for the back half of the year as well. While I think it is changing quite quickly with respect to the product level economics, if you're taking on a split pay product with 5% to 5.5% merchant fees, you're not going to be making four points of margin.

You do expect a little bit of compression on a percentage of GMV basis on the split pay business. Yet the opposite is true on our interest-bearing business where we're able to earn even higher total revenue transaction costs but over time. I think as we continue to scale some of our enterprise partnerships you're going to see some again back-ended-ness to the timing of those things. So our guidance reflects the mix that we expect over the next six months.

We'll update everybody with 2023 back when we talk later this year, but we're not at all concerned with our long-term guidance of staying in the 3% to 4% range, which we believe is still materially better than our competition.

Ramsey El-Assal

Okay. I guess more broadly on profitability, can you kind of give us your updated view on the sort of longer-term multiyear path to profitability? Has ramping up any of these larger, significantly larger partners like the Amazons of the world, maybe faster than expected, the ramp-down of Peloton, has there been any change to your view or approach or ability to kind of solve for profitability at the same pace over the longer term?

Michael Linford

No. I mean Max's line in the setup today is one I'd like to reiterate, which is our strategy hasn't changed. We talked about the financial model and framework in September, and that remains true no matter the macro conditions changing. While we have the opportunity to grow at this pace with what we think are industry-leading unit economics, we're not going to take our foot off the gas and we're going to keep scaling up the network.

The path towards profitability, the long-term financial profile of the business remains the same, and it is a function of us achieving scale greater than where we're adding human capital. Human capital is what's driving all of these we think fantastic results and we're still well prepared to keep investing into what we think is an incredible growth opportunity.

Ramsey El-Assal

Great. Appreciate it. Thanks so much.

Max Levchin

Just one more, I got one more way of thinking about it, that I guess utilize. Fundamentally just from going back to my experience, 20-odd years ago, pricing power of a payment network is directly proportionate to the number of active users it has, full stop. Like ultimately, when you come to market and say I have a product and I would like you to buy my way of delivering tender, the price that product is able to command is inevitably a function of how many people are using that product, prefer it, would like to use that to check out, whatever way you want to call it.

The reason we are so consumer growth and coverage obsessed isn't for some sort of a vanity number. But, the fact that ultimately we intend to come to market and say, we are the largest network. We are the most active network. We would like you to pay for that appropriately. So, this growth is a direct tie to the path to profitability.

Ramsey El-Assal

I see. Great. So not too much has changed since your prior view despite how the business has evolved. I appreciate it. Thanks for your answers.

Operator

Our next question comes from the line of Dan Perlin with RBC Capital Markets. Please proceed with your question.

Daniel Perlin

Thanks, and good evening, guys.

I wanted to ask a question around the kind of frequency of repeat customers versus the first-time users. You have a slide on that a little bit. The question is really the interplay there between your customer acquisition model, and how we should be thinking about that influencing cost into the second half of the year and maybe even into next year.

Michael Linford

I'll start and then Max can add on.

I mean, I think we included that slide in the supplement because we're really proud of what's going on underneath the surface where we have a step change in the number of users, 150% growth, and increasing frequency when you have that much user growth is actually really challenging. If you look at that chart and look at just the total transactions from repeat users, and the growth there alongside the net new user growth, it feels like a really good spot the business.

There is some impact with respect to the rate of new user growth on unit economics. First-time use tends to be slightly less profitable than the lifetime value of the consumer. So, you do have a little bit of start-up costs associated with that user growth. But as Max mentioned before, long term, that's much more important to us. So, we're going to keep adding users at a very aggressive clip. We're going to stay focused on that. Part of the reason we have so much confidence in the long-term economics is that's happening right alongside tremendous growth in repeat usage on the platform. We talked about network effects in the business. That's what that means. In the long run it gives us all the confidence in the world around where the economics will ultimately be.

Daniel Perlin

Yes. I thought that was a pretty impressive set of numbers as you think about growing the network that quickly to have that level of frequency so quickly.

The other question I have do you have any insight that you could share with us around kind of January trends in particular around the health of maybe some of the lower income cohorts that might be coming into the portfolio? I know some players out there have some concerns around what that dynamic is looking like. So if you could share any of those, that would be great. Thank you.

Michael Linford

Yes. I think what you saw in the disclosure around the delinquency trend is similar to—I think you should think about it which is, to date our credit outcomes are still a function of the decisions we've taken with respect to approval rates. There's obviously any number of seasonal effects that do require taking a fine-tooth comb over. But not seeing the broader weakness that others have seen in our overall credit performance, and feel really good about where we're at. That's what gives us again the confidence to give the guide that we have for this quarter.

Daniel Perlin

Great. Thank you.

Operator

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

Jason Kupferberg

Hi. Thanks, guys.

I just wanted to come back to this kind of general topic of we're adding $1.5 billion of GMV to the full year guide, but we're basically not changing revenue less transaction expense. I know you're talking about the interest-bearing loans, and kind of the revenue recognition dynamics there. I mean how long is that lag typically? I mean, I think this is a dynamic that's kind of throwing people off a bit. How much of this sort of dynamic is due to Amazon?

Michael Linford

Yes. The Amazon is part of it. But while the growth rate in Amazon—well, the addition of Amazon is great for us, as we communicated, we still doubled GMV excluding Amazon. So we know there's a lot of growth happening across the whole portfolio. So it's not just limited to Amazon. But the interest-bearing portfolio is growing quite quickly. That does tend to have that effect that you talked about.

The other obvious impact with respect to the revenue less transaction cost as a percentage of GMV is the mix towards split pay, as it does run lower. Again, it's a repeated theme with us, but product mix really does shake out with respect to the take rates on both revenue and the revenue less transaction costs.

Again, I think the only other thing to repeat is, we feel like we're operating at the higher end of the range that we've given folks in that 3% to 4% range and have a lot of confidence again in our long-term unit economics here. Again, would put ourselves up against anybody in our space with respect to the rates at which we're delivering here.

Jason Kupferberg

Okay. Then I guess just for the back half of the year, how should we be thinking about GMV growth, excluding Peloton? Has your full year expectation on telecom changed at all just given some of the challenges that they're having?

Michael Linford

Yes. Our current guidance reflects all of our current thinking on where they're at. We had, frankly, a good quarter in Q2 above our internal expectations, and feel like they're still delivering an incredible amount of volume for us. We admire their brand, and we admire the loyalty that they have amongst their consumers. We'll keep partnering with them. We launched with them in Australia this past quarter, and we're going to keep helping them grow their business.

Jason Kupferberg

Okay. Thank you.

Operator

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

Andrew Jeffrey

Hi. Yes. I appreciate you taking the question.

Maybe as it relates to Shopify, I'm still trying to sort of reconcile James' question a little bit too. I think you said it will be 15% to 20% split pay, will be about 15% to 20% of GMV this year. I guess, the first question would be, where do you think that can go? It's a pretty quick ramp, although not totally out of line with our expectations.

Then, the follow-up would be, it kind of implies based on your guidance that the rest of the business is growing about 45% volume-wise, which might be a little bit lower than we might have thought. Can you just address those two points?

Max Levchin

I'll start and I'll let Michael finish.

I don't think we'll break out exactly what percentage of Shopify split pay installments is. But it's obviously growing really well. The merchant adoption has been excellent. And, yet there's no shortage of demand. So I'm confident it can go up more.

I don't think we're breaking that out in our guidance, although Michael can correct me if I'm wrong here. But there's an enormous amount of growth there. If you take a quick look at Shop Pay, shopping installments doesn't even support interest-bearing loans today. But that alone, as a headline, should give you a pretty good idea that the service has been scratched, but not a lot more.

Michael Linford

Yes. So, 15% to 20% is a good number. How big could it be? It could be very big. Just like we haven't launch of interest-bearing on Shopify, we haven't launched split pay with either of our two largest enterprise merchants. So, I have a lot of confidence that number can continue to go up. I think the only other point with respect to the rest of the portfolio growth is just we are up against continued elevated levels in our, call it, a long-term zero finance business. We would continue to expect some of that to be a drag on the balance of the portfolio, but not something that we're trying to again target a Q3 growth number where we're thinking about how this network scales. And then how those network effects show up with repeat usage across the whole portfolio.

Andrew Jeffrey

Okay. All right. Well, I appreciate it. Thank you.

Operator

Our next question comes from the line of Andrew Bauch with SMBC Nikko Securities America. Please proceed with your question.

Andrew Bauch

Hi, guys.

I want to ask a question about the CFPB look at buy-now-pay-later. From whatever you can share, is there anything you've garnered from those initial discussions that kind of give us a sense of how they're looking at the offering going forward?

Max Levchin

Sure. First of all, it's obviously not for us to comment on their work there. The thing that's been true for us over the last 10 years is that we have a very, very high moral ground approach to this entire business, to the way we conduct ourselves, to the way we treat consumers, the way we deal with disputes, etc., etc. So, all things kept equal, we've been at the forefront of the industry, suggesting to the regulators that they should have a look and a set of clear rules and just a good guidance around the conduct of all the players.

In that sense, it's a positive news. A regulatory relationship is both a very important thing, and a very serious thing. We're interacting with them. There's a fairly detailed request for information. Obviously, we will reply to that. But all this kept equal, I think regulatory attention to the space is great. I was a little bit glib when I pointed out that in a public record of the information demand there was quite a lot of space dedicated to asking for the information around fees charged, the late fees or deferred interest or all sorts of other things.

We filled that out with zeros, because we don't charge any of those things to consumers, and took a small amount of pride in that we stuck to our mission and stuck to our approach to treating consumers right. That said, I'm confident over time there will be more regulatory attention and we will comply with all the necessary rules, and we'll do well there. So too early to tell what the future looks like, it’s certainly early to determine, but we're very happy to engage.

Andrew Bauch

Very helpful. Thank you. My follow-up would be, is there any kind of guidepost that you're going to give us from a macro perspective what you're embedding in the outlook for unemployment, inflation and rates. I appreciate the color on the interest rate moves to the impact on the model, but just kind of thinking about what a baseline number that you're embedding in your assumption would be.

Michael Linford

Yes. Again—go ahead.

Max Levchin

This time I get to take the picture last. The last one was yours. And I'm sure we'll have macro views as well. But just the thing that I think people really misunderstand about our products, maybe because it is more popular outside of high finance perhaps, when the interest rates go up, when the prices go up, really when prices go up, our product is more useful.

If you try to make ends meet and you're trying to pay for a couch and your credit card is confusing you, and the rates just went up? Affirm gives you clarity and a way to pay for things in a clear schedule, and then you're done and there are no late fees. Half the time, plus or minus, the seller will sponsor and you are paying no interest.

Just quickly the basics of our experiments. If the card rates that you paid went up 5%, for example, how do you feel about the 0% rate that a seller at a homeware shop is offering you powered by Affirm? It’s 5% more compelling. So as inflation happens, the product that we provide is actually more powerful and more useful, has significantly better bearing on sort of consumer demand side of it.

On the flipside, of course, the government addresses inflation, it raises rates, etc. I'll stop now and Michael can tell you what we've done about it, but all things kept equal at that top line, this is generally a tailwind, not a headwind.

Andrew Bauch

Got it. Appreciate it, guys.

Max Levchin

Michael?

Michael Linford

Yes. Just the total avoidance of doubt, all of our outlook reflects the forward curve. So, there's roughly 180 basis points of rate increases. We take that into all of our models when we give guidance. It's consistent with the market expectation of rate movement. So, we talk about rising rates. That's not a problem for us at all. That's already reflected in the guidance.

Andrew Bauch

Appreciate the color.

Operator

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

Bryan Keane

Hi, guys. Thanks for taking the questions.

Just two clarifications, I guess, just because it's come up a few times. But the implied revenue transaction cost take rate, when you gave guidance for Q2, was almost about 5%. So I think one of the surprises was that came in at 4.1%. And you talked about mix.

Was that just that you didn't realize that the Shop Pay business was going to grow that much, and it had that much of a factor on it? Just trying to make sure the guidance versus the actual.

Michael Linford

Yes, that's right. The mix impact of the business, the growth that we saw, which was obviously well in excess of the guidance that we had given in the quarter, tended to mix towards either lower revenue less transaction costs take rates as a percentage of the total, or tend to be a little bit more back-end weighted. Both those two effects caused the percent to go down despite the fact that we did of course beat the guidance on a dollar basis.

Bryan Keane

Got it. Then the follow-up question we get often is the profitability on those larger contracts like an Amazon or Shop Pay. How do we think about that? Obviously, those terms are with some larger merchants; typically a merchant acquiring, the larger merchants push pricing the hardest. It's really all pricing is made on SMB. So just trying to think about that relationship. Thanks so much.

Michael Linford

Yes. If you look at the merchant take rate slide again in the supplement, you'll see that we're doing quite well on the split pay business with respect to our ability to continue to earn good fees. We're not breaking out profitability by partner. But I think a key part of the reason we were able to deliver these exceptional enterprise experiences to the largest merchants is the fact that we're not just reliant on merchant fees. The fact that we do have consumer interest in the economic model does allow us to get to the merchant fee clearing rates that work for largest enterprises while still delivering really strong unit economics.

Bryan Keane

Got it. Thanks for the clarifications.

Operator

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

Dan Dolev

Hey, thank you for taking my question.

I just have a question regarding kind of where you are in terms of GMV and what's implied in the guidance. I'm still trying to get my head around the massive beat in the quarter. Then, you seem to be guiding kind of, in terms of a sequential basis, so much lower GMV. I just want to make sure that this is hopefully a sign of conservatism. The question we're getting a lot from Investors this evening is that there's maybe something else that got weaker. So, we just want to reassure ourselves and investors that this is simply being conservative given the strong results. Thank you very much for this.

Max Levchin

First of all, I think Michael already mentioned this. The seasonality is a significant component of this business. So that's an important piece of the puzzle. I'm not sure exactly what you're asking about in terms of something that may have gotten weaker. Not from our point of view. I think we've done fine and not anticipating weakness. But we try to make sure that we promise and deliver, as opposed to promise and hold our breath and see what happens. That's probably a philosophical approach to guidance thrown out there.

Dan Dolev

Got it. Yes. Sorry, I didn't mean to sort of harp on it. If I look at sort of pre-COVID kind of trends on a GMV basis, it doesn't look like at least like Q3, Q4 weaker. That's why I asked the question but…

Max Levchin

Again, in kind of all honesty, the quarter we just exited, just an absolutely monster. So, no matter what you sort of say for the next one, it will look like, well, gosh, what happened here. But our transaction volume, I am going from memory here, so I may be wrong. Michael, correct me if it is. But I think we've tripled, year on year, our Black Friday, Cyber Monday transaction count. We haven't tripled any metric of that class, since we're a series B or series C company. So the growth of GMV and transactions accelerated quite a lot. We'll digest and grow some more.

Dan Dolev

Appreciate. Thank you so much, guys. Appreciate it.

Operator

Our next question comes from the line of Vincent Caintic with Stephens. Please proceed with your question.

Vincent Caintic

Hi. Thanks for taking my question, and thanks for all the details on the credit trends, all the slides there.

I just want to follow up on that. I guess there's this concern about credit normalization, and how it impacts the business if at all. So looking at the slides, the delinquencies still below 2019, but getting there, the net charge-off as well. Just wondering as you're thinking, if credit is normalizing, how does that impact the business? If you can describe some of the offsets that you mentioned earlier like the optimization, the merchant pricing and so on that would be helpful. Thank you.

Max Levchin

I'll start and let Michael chime in as well.

I'll never tire of repeating it, but we choose the delinquency number we post, module compensating or completely unexpected events. Our job/goal/approach is to drive to a number that we like. We feel that we were probably retrospectively unnecessarily careful or unnecessarily tight for lack of a better term. Then so, we've loosened quite deliberately. As you noted, we've also—or someone else actually already noticed that we have now gotten to roughly the range that we like, and we'll continue managing the number. So, in that sense, there are inevitably ups and downs in consumer behavior, and stimulus winding up, and all the other versions of microeconomic events impacting the business.

But we have an enormous number of transactions. Think of it as a curve that's differentiated at every point basically infinite number of derivatives, but it's a high number of derivatives in terms of ability to differentiate, which means at any given time we have control, both at a product level, and at the consumer level. Also not being a line of credit allows us to differentiate a specific point of purchase to the type of transaction. So, we'll continue driving to the outcomes that we need, we want for our margin and our numbers. The macroeconomic realities are things that shapes our willingness to sort of bet into the gray zone.

As we read the macroeconomic numbers, we'll become less or more willing to allow a little bit more into the system. But it's something that is a choice. In that sense, it's always hard for me to react to what is the macroeconomic or what is the wider consumer trend doing. There's a lot more demand for our product than we are approving. In many cases because it's just a bad idea for a particular consumer to borrow, certainly borrow from us given our lack of guardrails, no late fees, etc. So, in that sense, the demand for product significantly outstrips our willingness to take the risk, and we'll continue managing sort of the right product there.

Vincent Caintic

Okay. Great. Thank you. I mean, I guess following up on that, you have the credit variables as an input into your decision making. I mean, I guess if there is kind of a macro credit issue, it doesn't sound like it's really going to impact volumes, or merchant pricing that should stay the same, because your product becomes more valuable in that situation. Or maybe if you could talk about, I don't know, like the inputs and outputs there?

Max Levchin

I'll tell you a little bit of a color-generating anecdote. In the early days of the pandemic, we actually went to our merchants and said, look, we believe the macroeconomic conditions are going to worsen before they get better. We don't really know, there's a lot of uncertainty. For those of you who are very focused on the bottom line, we are going to adjust credits, which means that approvals will go down a little bit. We're dealing on the margin here, so this is points up or down. But for those focused on the topline, and it all depends on the margin embedded in the merchant's product, right. Some people manufacture their own, others resell something they buy and resell it again. But the margin content that they have is usable to increase our approval and allow us to bet in the ability to repay sort of gray zone where the model say ability is not 100%.

We generally speaking were able to command significant price increases at the merchant base during the early days of the pandemic. Because the products that we provide to the consumer in the moments of uncertainty is just so powerful. So yes, generally speaking, there's lots of asterisks to add there, and macroeconomic issues can be described as all kinds of things. But as the economy ebbs and flows, if consumers need more access to credit, many, many, many of our partners are very happy to pay more for their consumers to complete transactions. Because the certainty and sense of control that we provide is what helps them move merchandise off the shelves.

In that sense, it's a little glib, but macroeconomic uncertainty is actually a driver of businesses like ours. If everybody was just swimming in government stimulus money, maybe just buy everything for cash. So, the discontinuation of various stimuli is on net a positive driver for the business, both on the consumer demand side, and the merchants' willingness to pay for our services.

Vincent Caintic

Okay, perfect. That’s very helpful commentary. Thank you.

Operator

Our next question comes from the line of Chris Brendler with D.A. Davidson. Please proceed with your question.

Chris Brendler

Hi thanks. Good afternoon. Thanks for taking my questions.

I will start a little bit more boring on the expense side. Pretty big sequential increases in all the non-GAAP expenses, technology, sales and marketing. I just wanted to get a sense, is that related to some of the ramp-up in some of these partnerships, or should we think about expense growth as a run rate? Obviously, I know you have the operating income guidance out there for the near-term, but just thinking about expense growth slow and maybe give a characteristic of some of the expense growth would be great as well. Thanks.

Michael Linford

Yes. Characteristic is mostly human capital combined with marketing investments on the non-GAAP side. On the GAAP side, there's also the impact associated with stock-based compensation, D&A, and the other non-cash items. I think we will stand by our long-term guidance that we gave in September around the profitability of the business being a function of the growth rate. So, while we're growing like this, we are going to keep investing in that human capital to build great products and delight consumers. When and if that growth rate ever starts to slow down, you'll see us grow expenses much slower and begin to deliver positive adjusted operating income.

I think of the profitability or bottom-line measures that we really manage to, the adjusted operating income number is what we intend to hit. It's where we have the guidance out for you for this period, and that's the number that we think will become scaling up and down as growth rates change.

Chris Brendler

Okay. Thank you. I guess another boring question, Michael, is the just the health of the debt markets. I know you continue to use securitization, both on and off balance sheet. It looks like you sold some more whole loans this quarter. Balance sheet growth actually came in a little bit below our estimates. Just is it still as healthy as it was given your increasing traction among fixed income investors, or has there been a bit of pullback given the macro conditions?

Michael Linford

No, I think we still continue to have very well-received deals in the market, both single counterparty deals, and our forward flow relationships. As I mentioned in the script, we had a great deal of capacity by adding new partners, and upsizing existing ones. We still continue to receive a lot of demand for the assets. Our securitization activity has also been very successful. You're going to see us continue to be very, very active there in both of those two markets and levers to continue to grow our business and deliver we think, again, excellent capital efficiency.

Chris Brendler

Great. Congrats on the results as well. Thank you so much.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. This also concludes our call. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.