Affirm Holdings, Inc.

Fourth Quarter and Full Year 2021 Earnings Conference Call

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PRESENTATION

Operator

Welcome to Affirm Holdings Fiscal Fourth Quarter and Fiscal Year 2021 Earnings Conference Call.

As a reminder, this conference call is being recorded.

I would now like to turn the call over to Ron Clark, Vice President, Investor Relations, to begin.

Ronald Clark

Thanks Operator.

Before we begin, I'd 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, and 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

Welcome everyone and thanks for joining us on today's call. Before we get into the results, I want to start by talking about what we are actually building at Affirm.

Around ten years ago, we founded Affirm with a simple mission: to deliver honest financial products that improve lives. We started by reinventing payments to make them transparent, simpler, smarter, and more delightful. Our core insight was that the generations coming of age after the financial crisis of 2008 were no longer willing to tolerate getting into permanent debt by "putting it all on the card" or getting burned by late fees and deferred interest. These young consumers—and many like-minded older ones—grew fundamentally suspicious of credit and retreated into the simplicity of their debit cards.

This created no less than a once-in-a-generation opportunity to transform credit and thus began the great unbundling of the credit card.

The credit card was the ultimate buying bundle—a single product allowing you to put purchases of all sizes together in one basket with the freedom to pay for them later. Unfortunately, if you couldn't pay for them later—and in full—endless debt became nearly inevitable, and that credit card could quickly become the financial equivalent of a ball and chain. That's where Affirm came in. We deconstructed, or rather we unbundled, the credit card starting with the largest purchases. We made these easier, more transparent, and helped consumers be smarter about buying now and paying later. In order to do all of this, we built proprietary technology from the ground up and developed sophisticated capital markets expertise.

Our game plan was always simple: obsess over consumer happiness, and use superior technology to give more people the confidence to buy, without resorting to the kind of dirty tricks the credit card industry is infamous for—late fees, fine print, and deferred interest to name a few. We believed this would earn the right to partner with the best, most important online and offline retailers.

After creating (in my personal opinion!) the best imaginable alternative to using a credit card for the kind of larger purchases that are most likely to get you into long-term, revolving debt—such as plane tickets, homewares, sporting goods, and auto parts—we sought to bring the convenience and flexibility of our longer-term "pay-over-time" solutions to shorter-term, lower-priced transactions. Consumer demand for simpler, more transparent payments was growing rapidly in new segments, such as fashion and apparel. These purchases naturally happen more frequently and are great opportunities to meet consumers where they shop and offer them a smarter alternative.

By partnering with merchants and e-commerce platforms to offer these solutions, Affirm is able to deliver meaningful incremental sales volume via increased cart sizes, improved checkout conversion, and new customer acquisition, thus enabling our partners to achieve more predictable and sustainable revenue growth.

Today, we offer both the longer-term “pay-monthly” and shorter-term “pay-later” solutions to our merchant partners, often as a bundle. And, unlike our competitors that only offer the latter, we are neither constrained by the amount the consumer wants to spend nor the time they need to pay us back, thanks to our investments in technology and capital management. We leverage this technology as well as our deep merchant partnerships to bring forward the best options to a consumer—always with an eye towards the fact that we will never offer a loan that we don’t believe can be repaid. Our breadth of offerings enables our partners to offer their specific shoppers the right payment solution...for the right item...at the right moment.

Our consistent results, the culture of engineering excellence, focus on intelligent risk management, depth of capital markets execution, and relentless search for opportunities to delight our shared consumers have earned us the trust and partnership of some of the world’s largest commerce platforms. These businesses depend on having the best technology to support their needs, and it’s why they overwhelmingly choose Affirm. Our technology enables superior experiences, provides unrivaled flexibility and customization, and can address the most complex requirements. And, we're constantly adding to those services...

In fact, Affirm’s roadmap for new merchant services is very long.

We see natural product expansion opportunities wherever access to capital, risk, or complex engineering requirements prevent merchants from delighting their consumers. Our acquisition of Returnly and its unique returns management capabilities is a great example of one such idea.

Another is the merchant Marketplace, built directly into the Affirm app and site. Purchases originating on these Affirm “owned-and-operated” surfaces amounted to nearly one-third of the transactions we facilitated in the fiscal year 2021, and these transactions are particularly valuable to our merchant partners. Merchants love our marketplace because their reach can be highly targeted and effective in driving conversion. In this use case, Affirm is both the provider of purchasing power to the consumer and the demand-generation platform for merchants.

We expect to continue to find many more opportunities like these to build, buy, and offer these high-value services for our merchant partners.

Meanwhile, the great credit card unbundling continues to accelerate in both the U.S. and internationally. The next frontier of unbundled payments is daily spend: groceries, restaurants, incidental purchases. This is why we are so excited to be rolling out the very first card of its kind: the Affirm Debit+ card. I will tell you a lot more about that in a moment.

As we speed into our Fiscal Year ‘22, I believe Affirm is strongly positioned to capture much more of the vast opportunity in front of us. We will do that by remaining obsessively focused on our two constituents: the merchant and the consumer, and by leveraging our core strengths to continue building products that delight both sides of our network.

As we look back upon our fiscal year 2021, we made great progress on executing our strategy:

We facilitated purchases for more than seven million consumers, nearly twice the number of consumers we served in the prior fiscal year.

At the same time, we delivered a five-fold increase in our active merchant base—that is, merchants that transacted on our platform over the prior twelve months—thanks to several large partnerships—including Williams Sonoma, Dick's Sporting Goods, Neiman Marcus—as well as the launch of Shop Pay Installments, all of which helped add over twenty-three thousand Active Merchants to our platform.

We also expanded our product offerings. The Savings product we introduced at the start of the fiscal year demonstrated the power of our platform to drive consumer engagement. By simply adding Savings to the Affirm app, we have attracted total deposits of approximately three-hundred million dollars...with no fanfare and no promotion, simply through organic engagement and a great offering. Many of Affirm's savers have gone on to use our platform to also discover great deals with our affiliate partners and manage their financial lives. On the merchant side, our recent acquisition of Returnly has meaningfully expanded our addressable market. Not only does Returnly solve one of merchants' most critical pain points, it also provides us with another unique offering for higher-velocity merchants, especially in categories such as fashion and apparel, where returns are quite frequent.

And of course, we extended our presence in North America by closing the acquisition of a leading pay-later brand in Canada, PayBright, in January. PayBright has not only expanded our presence in Canada, it is also winning exciting new business with powerful consumer brands and delighting Canadian consumers.

And, we are developing deep connections with consumers. Brand awareness increased approximately 70% in fiscal year 2021, and was particularly strong among Gen Z and Millennial consumers, whose awareness increased 94% and 68%, respectively.

All of these wins help us create a more valuable two-sided network for our consumers and merchants, as we facilitated more than 16 million transactions totaling more than $8 billion in GMV in fiscal year 2021.

So what comes next?

We have an ambitious plan for the fiscal year, and, more importantly, for the decade ahead. To fuel the expansion of our business and to increase our share of the growing market, we are focusing on three key areas for fiscal year '22:

●increasing our consumer reach and frequency,
●growing our merchant and partner network, and
●extending our product offerings.

Our partnerships with enterprise merchants, and platforms like Shopify, introduce more consumers and high-velocity merchants to Affirm's honest and transparent offerings.

In our current fiscal year, we have continued to ramp merchant activation of Shop Pay Installments. When we reported earnings back in May, we shared with you that we had onboarded 12,500 Shopify merchants at that time, and today, that number stands at hundreds of thousands. Our focus now is to drive more consumers to experience Shop Pay Installments. To do so, we are activating both Shopify and Affirm's consumer networks via a range of marketing channels.

Through our host of integrated partnerships with the largest merchants in e-commerce and brick-and-mortar retail, Affirm will be offered as a payment option for merchants representing more than half of U.S. e-commerce, which we believe will ultimately enable us to demonstrate Affirm's powerful value proposition to millions of new-to-Affirm consumers and grow Active Consumers meaningfully in fiscal year 2022.

What most excites me about the year ahead is the Affirm Debit+ card, which is currently in the hands of several hundred people. We've worked very hard to create a product designed to meet the bar of convenience set by the best cards people have in their wallet today. But, we didn't stop there. Our team has designed and developed the most meaningful innovation to the debit card since its introduction more than 50 years ago, putting unparalleled choice and flexibility directly into the hands of the consumer.

A consumer can use the Affirm Debit+ card in place of their regular debit card. It connects seamlessly to their existing bank account and no new checking account is required. Once you swipe or tap, you can use the intuitive Debit+ companion app to turn any eligible transaction into an Affirm pay-over-time product. All it takes is a couple of taps within a day after the transaction occurs—it's just that simple. This effortless access to a smarter, more transparent way of paying over time at brick and mortar and online is very close to being indistinguishable from magic, but as always with Affirm, there are no tricks—just excellent technology. The beauty of our card is that it's powered by software, which means you can expect us to regularly add new features and functionality via app updates.

I believe Debit+ is a revolutionary idea that can truly help millions of people enjoy life with a lot less angst about spending and saving money. With the beta test wrapping up this month, we are excited to bring this card out to the nearly million-strong waiting list of existing Affirm customers and the general public. I invite you to sign up for yours at http://affirm.com/card — it's pretty awesome. But don't take my word for it, try it yourself.

On the merchant side, expanding our solutions drives greater monetization by providing cross-selling opportunities designed to also increase retention. Following the acquisition of Returnly, in the coming year we plan to accelerate its adoption among existing Affirm merchants through our cross-selling efforts. We believe the combination of Affirm's flexibility in terms and durations and Returnly's elegant solution to the returns problem will deliver significant value to retailers, particularly in higher velocity categories. Beyond Returnly, we believe we can do a lot more to expand upon our strong merchant relationships and are working on additional opportunities to leverage our technology chops and underwriting expertise to address more of our merchants needs.

Combined with the momentum we generated in 2021, we believe these initiatives will deliver yet another year of strong growth at scale in fiscal year 2022, with expected year-over-year GMV growth of at least 50% based on our outlook. And, as we launch unique new offerings such as Affirm Debit+ and activate exciting new merchant partnerships, we see a very bright long-term future for Affirm.

In closing, I've never been more excited about how well Affirm is positioned to win. Even at our blistering pace of growth, the opportunity before us is vast. Adoption by consumers and merchants alike continues to accelerate, yet, at the same time we are just getting started. With our company's deep roots in product development and engineering, we are at our happiest and most productive when building and innovating. With so many new ways to delight consumers and solve merchants' problems planned for the coming years, we are poised to expand our addressable market, to grow Affirm, and deliver on our ambitious mission: to improve lives.

I want to thank our team for continually delivering for our consumers, our merchants, and our shareholders. '21 has been a monumental year for Affirm. From preparing us to go public to integrating with some of the largest players in U.S. retail and e-commerce, the Affirm team has surmounted countless challenges with aplomb. Without Affirmers' hard work and continued dedication, none of this would be a reality, and I am truly grateful for the hustle and the sacrifice.

Before I turn it over to Michael, I have a quick announcement that I want to make. On September 28th, Affirm will hold a virtual investor event after the market closes. We plan to share more detail about our business, our strategy, and our product plans at this special event, including and especially the Affirm

Debit+ Card. I would like to invite you to join us. Please look out for more information at our Investor Relations website at investors.affirm.com.

And with that, I will turn it over to Michael to take you through the numbers.

Michael Linford

Thanks, Max, and good afternoon, everyone.

We delivered another set of strong results to close out our fiscal year. In the fourth quarter:

We accelerated the year-over-year growth rates of both GMV and Revenue for the second consecutive quarter, to one hundred six percent and seventy-one percent, respectively. Excluding our largest merchant, Peloton—which saw GMV growth of over three hundred twenty-eight percent in the fiscal fourth quarter of 2020—our fourth quarter GMV grew one hundred seventy-eight percent.

We also delivered strong unit economics. Excluding the provision for credit losses, Revenue Less Transaction Costs reached seven percent of GMV.

And, even as we delivered these strong results, we continued to improve the capital efficiency of our business. The equity capital used to fund our loans decreased by another nineteen percent to one hundred seventy-eight million dollars, despite more than doubling GMV and nearly doubling Total Platform Portfolio.

We also continued to deliver excellent credit performance. Our allowance as a percentage of Loans Held for Investment declined to just 5.8%, down from 9.2% last year, even as we expanded credit availability within our monthly installment and Split Pay loan offerings.

And, while we are pleased with the progress we made in the fourth quarter, we are even more excited about how our product roadmap and recent merchant partnerships set us up for yet another year of expected strong growth in the fiscal year ahead. I will discuss our financial outlook for fiscal year 2022 in a moment, but let me walk you through the key financial highlights of the fourth quarter first.

Unless stated otherwise, all period-to-period comparative data refers to our fourth fiscal quarter of 2021 compared to the fourth fiscal quarter of 2020.

Fourth quarter GMV grew one hundred six percent to $2.5 billion, exceeding our outlook.

The momentum in GMV was strongest in categories leveraged to the “reopening” of the economy, while we began to anniversary the steep acceleration in the growth of categories that benefited from social distancing. For the first time, Fashion and Beauty was our largest category thanks to our focus on expanding into lower AOV segments, while Travel and Ticketing continued to grow rapidly, contributing fourteen percent of GMV, up from nine percent in our fiscal third quarter of 2021. Owing to the strong growth of our business, merchant concentration continued to decline, as Peloton contributed nine percent of fourth quarter GMV compared to thirty-two percent in the prior year’s fourth quarter.

GMV growth came from both new and existing merchant relationships as well as our direct to consumer virtual card product. Merchants signed in fiscal year 2021 delivered fifteen percent of our fourth quarter GMV, excluding Paybright and Returnly. Merchants launched prior to fiscal year 2021 also grew quickly—delivering more than one hundred percent dollar based merchant retention—and excluding Peloton, our

GMV from these merchants grew ninety-two percent in fiscal Q4. Additionally, our non-integrated virtual card product grew four hundred sixty-two percent this quarter.

More and more consumers are choosing Affirm's honest and transparent payment alternatives. Growth in Active Consumers—which we measure over the prior twelve-month period—accelerated, effectively doubling to 7.1 million. Not only are we seeing strong growth in new consumers, we are also seeing encouraging trends among existing consumers. And, as we have expanded into higher-frequency and lower-AOV categories, transactions per active consumer has increased by eight percent from 2.1 to 2.3.

At the end of the fourth quarter, Active Merchants—those merchants that have transacted on the platform over the prior twelve months—increased to almost twenty-nine thousand compared to just five thousand seven hundred in the prior year, thanks in large part to our partnership with Shopify, even though Shop Pay Installments only became generally available to Shopify merchants in the last twenty days of the fiscal year and quarter. As Max indicated, with hundreds of thousands of merchants now enabled for Shop Pay Installments, we are working closely with Shopify to drive consumer awareness and get even more consumers to try Shop Pay Installments. I would also note that the overall Active Merchant count includes roughly three thousand incremental PayBright and Returnly merchants following the close of those acquisitions in January and May, respectively.

Turning to the mix of our offerings, we derived thirty-eight percent of GMV from our zero-percent-APR products, down from fifty-four percent in the fourth quarter of 2020, while the GMV contribution from interest-bearing products increased to sixty-two percent percent from forty-six percent percent last year. The mix shift was primarily driven by the strong growth in categories like Travel which have fewer 0% merchants and the moderation of Peloton volumes. Loans with a term-length of greater than twelve months accounted for twenty-two percent, down from forty-three percent last year, while AOV declined from six hundred seventy-two dollars to four hundred ninety-five dollars driven by the same category mix shift. As Max noted, we continue to drive a large proportion of the GMV on our platform to our merchant partners from our owned properties. In the fourth quarter, twenty-nine percent of transactions originated on Affirm's owned-and-operated properties—or thirty-two percent if you exclude Returnly and PayBright.

Strong fourth quarter GMV growth also helped accelerate growth in revenue. Fourth quarter Net revenue of two hundred sixty-two million dollars grew seventy-one percent year over year, up from sixty-seven percent in our fiscal third quarter and fifty-seven percent in our fiscal second quarter. These results reflect the diversity of our product offerings, which enable us to deliver consistent revenue growth by giving merchants and consumers greater flexibility in terms, durations, and—of course—purchase sizes. Our ability to offer a wide range of options is one of the many reasons why so many merchants—especially many of the retail industry's largest enterprises—choose Affirm. That flexibility—including being able to pivot from zero-percent APR offers to interest-bearing offers—has also enabled us to quickly adapt to major changes in the environment on behalf of our merchants over the past year-and-a-half.

Total Network Revenue grew twenty-three percent to one hundred eight million dollars in the fourth quarter; however, excluding Peloton, Total Network Revenue grew 106%. As a percent of GMV, Total Network Revenue declined three hundred basis points year over year, but was roughly consistent on a sequential basis and reflects the growth in our interest bearing products - especially in the Travel category and our direct-to-consumer virtual card product.

Revenue as a percentage of GMV, our total revenue take rate, was 10.5%, ahead of our expectations. While down versus last year, the overwhelming majority of the year-over-year change was due to the mix of loans originated on our platform. Last year's take rate also benefited from temporary increases in MDRs, as certain high-AOV merchants elected to pay increased MDRs in order to secure additional revenue in the early days of the pandemic. Excluding these two factors, revenue take rates were roughly stable year on year.

Interest Income grew one hundred eleven percent to one hundred four million dollars. However, it is important to note that 40% of the increase in Interest Income was driven by a 212% year-on-year increase in the amortization of the discount on loans held for investment on the balance sheet rather than from consumer interest payments. The portion of Interest Income related to consumer interest payments grew seventy-seven percent, which is roughly inline with the total revenue growth we reported in the period.

Revenue from Gain on Sales of Loans of forty-three million dollars increased from twelve million dollars in the year-ago quarter, as a result of more favorable loan sale pricing terms, an increase in the volume of loans we sold to third parties, and our 2021 non-consolidated zero-percent securitization transaction.

Finally, Servicing Income of seven million dollars increased from five million dollars in the prior year, as the average unpaid principal balance of loans owned by third-parties grew year to year.

Now turning to expenses, total Transaction costs of one hundred fourteen million dollars came in better than our outlook of one hundred thirty-five to one hundred forty million dollars in the fourth quarter. While Transaction Costs grew one hundred forty-nine percent year-over-year, nearly all of the increase was related to a fifty-eight million dollar year-to-year swing in Provision for Credit Losses, which I will discuss in a moment. Excluding the impact of the provision, we continued to drive improvement in our unit economics. Transaction Costs excluding the Provision for Credit Losses grew just fourteen percent compared to Total Revenue growth of seventy-one percent.

Looking at the components of Total Transaction Costs...loss on Loan Purchase Commitment was fifty-one million dollars, compared to fifty-five million dollars in the prior year. Loss on Loan Purchase commitment is directly correlated to the level of longer-duration, zero-percent APR GMV originated.

Provision for credit losses was twenty-five million dollars compared to a gain of thirty-two million dollars in the prior year, reflecting better-than-expected repayments and reduced stress multiples in the year-ago quarter in the context of the sizable loss allowance that was established at the end of the third fiscal quarter of 2020 in the very early days of the pandemic.

Funding costs increased from eight million dollars to sixteen million dollars in the fourth quarter of 2021, consistent with the growth of Loans Held for Investment. The increase reflects the issuance of securitization trusts, which bear interest at a fixed rate, as well as increased average funding debt, offset in part by lower average interest rates.

Finally, processing and servicing costs grew forty-eight percent to twenty-two million dollars, despite Total Platform Portfolio growth of eighty-eight percent, reflecting the on-going scale efficiencies we are achieving.

The combination of strong top-line performance and reduced Transaction Costs resulted in much better-than-expected Revenue less transactions costs of one hundred forty-eight million dollars compared to our fourth quarter outlook for eighty to eighty-five million dollars.

Looking beyond Transaction Costs to operating expenses, our strong growth in the fourth quarter enabled us to invest in the long-term growth of our business.

Technology and data analytics expense—which is primarily composed of personnel expenses in our Product and Engineering organization—grew one hundred twenty-four percent to seventy-one million dollars. As a percent of Total revenue, Technology and data analytics increased from twenty-one to twenty-seven percent. However, excluding the impact of stock-based compensation, Technology and data analytics as a percent of revenue declined by sixty basis points compared to last year. The year-over-year cash increase in Technology and data analytics was driven by higher engineering headcount dedicated to deliver the exciting slate of product and technology initiatives that Max discussed.

Sales and marketing expenses—which include both personnel and our marketing activities—increased from five million dollars to sixty-four million dollars, or from three to twenty-four percent of Total revenue. The majority of the dollar growth was driven by consumer branding to drive awareness and adoption, while SBC contributed six million dollars of year-to-year increase, and the warrants we issued to Shopify in conjunction with our commercial agreement contributed seventeen million dollars.

General and administrative expenses increased from thirty-one million dollars last year to one hundred thirty-eight million dollars, or from twenty-one to fifty-three percent percent of Total revenue. However, excluding stock-based compensation, G&A was twenty-one percent of Net revenue compared to nineteen percent in the year-ago quarter. The cash increase in G&A was primarily the result of increased headcount to support the company's long-term growth and public company operations.

Including these expenses, GAAP Operating Loss was one hundred twenty-five million dollars in the fourth quarter of 2021, compared to GAAP Operating Income of thirty-nine million dollars in the fourth quarter of 2020.

Despite making significant investments in our long-term growth, we delivered positive Adjusted Operating Income. Adding back D&A, stock-based compensation, the amortization of Shopify's warrants, and other one-time expenses, Adjusted Operating Income was fourteen million dollars compared to forty-seven million dollars in the prior year, or 5.4 percent of Total Revenue.

Turning to our balance sheet, we delivered triple-digit GMV growth while driving even more efficiency from a capital perspective.

Total Platform Portfolio—which we define as the unpaid principal balance outstanding for all loans facilitated through our platform, including those owned by third parties—increased $2.2 billion from June 30, 2020 to $4.7 billion at the end of the fourth quarter. Half of the $2.2 billion increase was funded on a non-consolidated basis through a combination of forward-flow and our first unconsolidated securitization transaction. The rest was funded by consolidated securitizations and warehouse facilities. In terms of our overall funding mix, warehouse financing continued to shrink, from $1.0 billion to $0.7 billion at June 30, 2021.

We expect to fund future growth primarily through a combination of loan sales and securitization transactions, which continue to garner strong demand in the ABS market from a diverse array of large institutional investors. As alluded to previously, during the quarter we successfully closed 2021-Z1, our first unconsolidated securitization transaction. In addition, we recently issued our sixth ABS transaction, 2021-B, at very attractive financing terms, resulting in minimal equity capital required by Affirm. By establishing ourselves as a programmatic ABS issuer, these securitizations, in conjunction with our committed forward-flow agreements and warehouse facilities, provide us with financial flexibility to support our GMV growth aspirations by creating meaningful capacity to efficiently fund billions of dollars of loans with negligible incremental equity capital requirements.

A material, noteworthy result of our approach to funding optimization across these channels is the reduction in the Equity Capital we use to fund our business. Equity Capital Required declined by nineteen percent from the year-ago quarter, from two hundred twenty-one million dollars to one hundred seventy-eight million dollars, despite growing our loans on the balance sheet by one billion dollars. Accordingly, as a percentage of Total Platform Portfolio, Equity Capital Required fell to a low of four percent from nine percent in the year-ago quarter.

Now turning to the year ahead, we expect the strategic progress we made in fiscal year 2021 and the accelerating consumer and merchant adoption of our offerings to drive strong growth once again in fiscal year 2022. Before I dive into the numbers, let me share some color on our outlook:

After a year of explosive growth, we expect a moderation in Peloton GMV in fiscal year 2022. Our Peloton business benefited from strong pandemic-related tailwinds last year as well as the introduction of a new product slate—including the highly successful Bike+ and lower-priced Tread—in September 2020.

Additionally, we have not included any GMV or Revenue from the Amazon partnership that we recently announced. We are currently in the early stages of integration, and will update you on the progress and incremental impact to our outlook, each quarter.

Finally, while we are very excited about the rollout of the Affirm Debit+ Card, our outlook for fiscal year 2022 also does not include a contribution from this new product. GMV and revenue from this new product would also be incremental to our outlook.

With that context in mind, for our fiscal year ending June 30, 2022, we expect Gross Merchandise Volume to increase between fifty and fifty-four percent percent from fiscal year 2021 to between $12.45 to $12.75 billion dollars. Excluding Peloton, we expect GMV growth of seventy to seventy-five percent. We also expect our Split Pay offering to contribute ten to fifteen percent of our Fiscal Year 2022 GMV, with the largest contributor of this volume coming from the Shop Pay Installments program.

Accordingly, we expect Revenue of $1.16 to $1.19 billion dollars, representing year-over-year growth of thirty-three to thirty-seven percent. Owing to the ongoing mix shift, we expect modest contraction in Total Revenue as a percent of GMV in fiscal year 2022, as implied in our outlook.

Turning to expenses, we expect Transaction costs of six hundred five to six hundred twenty million dollars. As a percentage of Total revenue, we also expect modest deleverage in Transaction costs as a percent of revenue. As a result, we expect Revenue less transaction costs of five hundred fifty-five to five hundred seventy million dollars.

As Max noted in his comments, we plan to deliver an exciting slate of consumer and merchant product offerings in fiscal year 2022 as well as over the next several years. To drive the success of those initiatives, we are investing in engineering and product talent here in the U.S. and deploying a new engineering center in Poland. As a result, we expect significant investment in Technology and data analytics in fiscal year 2022. We are also increasing our spending on marketing to drive consumer awareness and adoption. Accordingly, we expect an Adjusted Operating Loss of one hundred forty-five to one hundred thirty-five million dollars.

Finally, we expect weighted-average shares of approximately 290 million for the year.

For our first quarter ending September 30, 2021:
We expect GMV to grow sixty-four to seventy percent to $2.42 to $2.52 billion dollars.

We expect that growth to drive Total Revenue of two hundred forty to two hundred fifty million dollars.

Our outlook for the first quarter also contemplates Transaction Costs of one hundred forty-five to one hundred fifty million dollars.

Revenue less Transaction Costs of ninety-five to one hundred million dollars...

Adjusted Operating Loss of sixty-eight to sixty-three million dollars, and weighted-average shares outstanding of 275 million.

In closing, we made another year of excellent progress on our mission to bring consumers and merchants together with honest financial products. Like Max, I am extremely proud of our team's accomplishments over the last year. We are shaping the future of finance for the better and everyday more and more consumers and merchants are coming to Affirm for honest, transparent and delightful product experiences. I have never been more confident in our competitive position, nor more excited about the future that lies ahead. Here's to another year of extraordinary achievements to come.

And with that, we are happy to answer your questions.

Operator

Our first question is from Ramsey El-Assal with Barclays. Please proceed.

Ramsey El-Assal

Hi, thanks for taking my question this evening, and congratulations on these impressive results. I wanted to ask about your Shopify relationship. In terms of signing new merchants, I mean the quarter saw such a huge step up in active merchants. How far penetrated do you think you are at this term in terms of the merchant base available to you? What inning are you in with the process of rolling out Shopify?

Max Levchin

Asking me about innings will immediately highlight…

Ramsey El-Assal

Any sports metaphor you want to…

Max Levchin

I'm only good for one. We're like the day before the rest day the first week of Tour de France, the only sport I'm good for. I have no idea how many innings exist in any base sports if I'm honest.

I would say early. (Inaudible) Just to give you a sense how the process actually works, you first have to educate the merchant base, then you have to onboard them, then you start activating them both for marketing and just exposure to consumers, and then eventually start processing volume. If you kind of think of it in these four stages, the number we highlighted in both Michael's remark and mine is the tens of thousands of actives across our (inaudible), but obviously Shopify is the question here. If you look at the on boarded, which is the stage before, that number is in the hundreds of thousands now. And so we will start ramping the next stages of that process for these merchants, but it will take time.

So it's early, very happy with how it's going, lots more to cover.

Ramsey El-Assal

Okay. Then I wanted to ask you a kind of a higher elevation question about all the M&A we've seen in the space over the last few months. It seems like there's kind of an accelerating trend towards bundling buy now pay later in with other financial services. I know you guys are sort of embarking on that from sort of the other direction. Can you give us your thoughts on industry consolidation, what maybe the end state of the industry looks like and sort of the different strategic paths available to you guys?

Max Levchin

I can certainly try. I think if you want me to speculate. So first of all, just to level set, the ecommerce is $800 billion in the U.S. or so, and I think buy now pay later—the various names I'll refer to in my mind unbundled credit cards, because we're really trying to make that point in my little speech. But the whole idea here is the industry is very rapidly unbundling the credit card product into a bunch of different connected services.

All that said, it's still like in the 3% to 4% of the overall ecommerce and then of course, non e part of commerce, and so long road to go, but that's really, really important to understand. So I think companies like Affirm that have a vision that extends past just a handful of years, really have a lot of growth and a lot of product building to do. So from that point of view, we are very keen observers of the industry. We think ourselves great technologists obviously, really careful risk managers, really thoughtful builders of things, and we're not bad at all in travel markets. Those are kind of the key notes in our chord that we're trying to strike with the industry; wherever we can build, or buy more merchant services that speaks to those strengths, we will. That's what we're looking for. Returnly is kind of great highlight. It's just a beautiful, complementary service that fits into all those strengths, instantly benefit from cross-sell to merchants, instant benefit from our depth of capital markets. They're not bad risk managers themselves, but obviously, we have to share notes now. That you will see us do more and more of. We think there is just a lot to do there. Not necessarily always buying, but we are very keen on creating this ultimate merchant bundle with those three key areas as the guiding principles.

The industry itself, I think, to be completely honest, I'm a little surprised by the earliness—if that's a word—of the consolidation. But that said, huge (inaudible) specifically, I think, these guys are building really cool barriers to their product and I'm pleased to see that the market really valued them for it.

We are obviously a much, much, much wider impact surface. We cover both the short term paying for all the way out to multiyear monthly payments, both interest-bearing and interest free. We involve manufacturers in subsidizing some of the interest payments for consumers. I think it's just a much, much, much broader, rounded out offering. So, the opportunities for us that extend well beyond sort of plugging our point solution into someone else's larger vision (inaudible) will decide on their own.

That said, I do think that the entire financial ecosystem, well beyond the startups, really everyone has now fully woken up to the idea that buy now pay later, unbundled credit card is a huge opportunity and consumers are driving that change. That's just really important. It's happening very, very quickly and we happen to be surfing that wave, but there's a lot more companies that are now playing there as well. That's really, really good to see.

Ramsey El-Assal

That was hugely helpful. Thanks so much.

Operator

Our next question is from Jason Kupferberg with Bank of America. Please proceed.

Jason Kupferberg

Hey, thanks, guys. Congrats on the numbers here.

I wanted to start with a question just on the revs less transaction expenses for '22 is going to be 4.5% of GMV, and I know that that's materially higher than the low to mid 3% range that I think you had historically targeted. Should we think of the mid 4%s as kind of a new normal, or are there some anomalies that you would call out for Fiscal '22? I know the number was even higher the last couple of quarters, but just wanted to see how we should think about it on a more normalized basis.

Michael Linford

Yes, I think there's a couple things to think about here. It has been higher recently, although we have benefited from continued improvement in the credit outlook that has contributed nicely.

When you look forward, as you model out the split pay low AOV business, you will see numbers coming down there, just a start to the much smaller revenue base, and so as a percentage of GMV you do have less revenue less transaction costs in those transactions. We've indicated that we expect 10% to 15% of next year's number to be there. Over the longer term, we do expect that to continue to grow faster, and so I think we'd like to maintain the kind of longer term indication we've given everybody.

Jason Kupferberg

Okay. So we should still think about that really mid 3%, just based on mix over the longer term.

Michael Linford

That's right.

Jason Kupferberg

Okay. Okay. Then just following the Amazon announcement, get a sense for how your pipeline works for other potential large merchant wins. And then maybe as part of that, can you just talk a little bit about the availability on Amazon? I think the press release has said kind of the coming months, but would you encourage us to think about that as the next quarter or is this more like two to three quarters out?

Max Levchin

I think we try to be as disclosive and as careful as we can be when we talk about such large important partnerships. The testing is ongoing, literally day and night, so we're in that phase of a partnership. I think the opportunity itself is enormous. The exact contours availability, both where and when is a little bit beyond the scope of this particular conversation.

In terms of enterprise pipeline, I don't want to toot my own horn too much here, but we have become sort of the undisputed provider of the service to the enterprises because we are really that good. We think that any enterprise thinking about offering buy now pay later, or pay monthly looks at Affirm as the gold standard and we intend to provide those services to anyone who would like them.

Always a terrible idea to pre-announce deals or pre announce deals that aren't closed, so shouldn't really be commenting on the pipeline, but certainly have extreme conviction that what we built resonates with folks that care about technology, scalability, availability, just delivery of full suite of products as opposed to point solutions, so in that sense I think the market is meeting us where we are with our suite of services.

Jason Kupferberg

Okay. Thank you. Appreciate it.

Operator

Our next question is from Dan Perlin with RBC Capital Markets. Please proceed.

Dan Perlin

Thanks, and let me add my congratulations as well.

Max, I wanted to maybe dive in a little bit onto that last question a bit. The question really, is the nature of which Amazon chose you guys. You threw off a couple things there, but I mean is it ultimately the breadth of product? Is it that you solved kind of the sweet spot for them and helping them convert? And is it also that there's this parallel kind of roadmap that you might share with them? Just any, I think, incremental color in terms of maybe why that relationship was born would be very helpful. Thanks.

Max Levchin

Again, I think it is important to say that as announced it is a test. We are working very hard to make sure the test is successful. The reason (inaudible) companies of the scale and (inaudible) customer obsession, which, by the way, one reason why companies of this type, perhaps choose us, everything I said—technology, risk management, conversion, all of that is true, but at the very core it is (inaudible) with the end consumer. We want to deliver the best possible service.

Sorry, I'm getting feedback that it's very hard to hear me. Is this any better?

Dan Perlin

I can hear you fine.

Max Levchin

Sorry. I'll try to add more microphones too.

The punchline is we are obsessed with consumer delight. We want to make sure that we are driving sales, increasing conversion, improving the size of cart, all of that while being on the consumer side, without charging them late fees, without burying gotchas and fine print and things like that. I think that is typically the cornerstone of our most successful partnerships. That is where these enterprise merchants that expect to live for hundreds of years and have lots of repeat transactions, they want to know that we will treat their consumers right, that their consumer doesn't become just a footnote in the chase for revenue, et cetera. So I think that's really, really important. That's where a lot of these relationships are forged. That's what we bring and we take that very seriously, certainly as do they.

Dan Perlin

Got it.

Max Levchin

Sorry, I'll stop ranting. But the other thing…

Dan Perlin

No, no. All good.

Max Levchin

… perhaps worth noting, I think that's the important thing here is I think the wave of the industry that I highlighted is what's driving a lot of these relationships as well. We are the best with technology, we are really the most scalable provider here. As these very, very large retailers say, “You know what? This isn't going away. It's not a cool feature. It's a real product.” They look to us to provide.

Dan Perlin

Then my follow-up just briefly, kind of as an extension to that, as you aptly noted, you're winning a lot of these enterprise and platform deals. The question I guess longer term is, how do you think about—and this is a high quality problem obviously—but how do you think about the potential concentration risk that a company like Shop and Amazon, Peloton won’t come back and you probably will win other large scale enterprise relationships? I'm just wondering how you think about that and what are those discussions like internally about how to mitigate some of those risk concerns? Thank you.

Max Levchin

It's a great question. If I'm honest I think our job is to build exceptional product and maintain our leadership, both intellectually and at the product level. (Inaudible) enterprises you inevitably run some level of concentration risk. I think we've demonstrated simply looking at Peloton that we're quite good at diversifying those concentration risks. I can say, we don't know what to do about risks in general, but at the very core, our success depends on our ability to build great product and run it successfully at great unit economics, etc., so that’s what we will do.

Dan Perlin

Thank you.

Operator

Our next question is from James Faucette with Morgan Stanley. Please proceed.

James Faucette

Great. Thank you very much.

Max, I want to kind of build on the theme of adding new merchants, etc. In our own research, we saw a bit slower growth among the largest online merchants, which is probably understandable, the largest online ones outside of Amazon, but that's understandable, given the push to bring Shop merchants on, etc. How should we think about just more generally merchant growth dynamics going forward? I think this builds a little bit on the last question: Should we expect a lot more bigger merchants near-term? Or is it still like building up a broader base? Just kind of help us think through what you're targeting and where you're putting effort?

Max Levchin

Yeah, we think this product makes a lot of sense for consumers, first and foremost. We are at this point the premiere provider of the services to platforms of various kinds. We intend to bring products to market with them and that is really important to us, that that's fueling a fair amount of our excitement here.

That said, we very much care about smaller merchants. In fact, we are investing in areas of merchant self-service, making sure that we can bring someone live from mere interest in Affirm to accepting transactions as quickly as possible. One of the core metrics we review literally every week is how long did it take to go from "I'm interested Affirm" to take in first transaction, and that's something that we are constantly trying to minimize. It really matters for these little shops that do not have a legal team, and so on and so forth.

We see ourselves as providers, not just to the very largest, but also to everyone. Mid tail, long tail, all those are great customers, and frankly, the impact that we have on the long tail base is really staggering. That's where you can have share of cart that can number in sort of the staggering high double-digit numbers.

Now, the reason we are interested and so invested in these platinum partnerships is because a lot of them carry enormous amount of long tail and so building our service in a way that is consumable and installable, it's really easy, really high converting both at the consumer end but at the really small merchant end is really important to us. Merchant self-service pipeline works really well by way of integrating with I think all the platforms, all the ecommerce platforms out there at this point—I can't think of one where we're not supported—and also through these partnerships. We intend to go after every imaginable merchant out there, both online and also we have our designs on offline.

James Faucette

That's great, and just as a quick follow-up—this is for you, Michael. Can you give a little bit more color on, I guess, kind of the activity mix during the quarter. I ask because number of users was a lot better than we had modeled and things like virtual card network revenue was better as well as gain on sale, but on the flip side, the merchant network revenues were a little less. Just wondering how we should think about what caused that during the course of the quarter perhaps, and then how we should kind of think about that mix volatility, if you will, going forward.

Michael Linford

The change in which income statement lines the revenue hits is very much a function of the product, and so as we mix away from longer term 0% loans, you'll see loans that are coming into the interest-bearing side. As we talked about, we did have a higher mix in interest-bearing this quarter and when we put those on our balance sheet we earn interest income, and when we sell them we get the gain on sale, and you saw that big growth on gain on sale there. The underlying reasons are related to the segments that saw the strongest growth. We had segments like travel and ticketing, which obviously, as early stages of the reopening saw explosive growth, but also we had our direct-to-consumer virtual card product, Affirm Anywhere, grow substantially. That product has a little bit of virtual card network revenue and then obviously interest-bearing activity behind it. Really, it's the mix of products that shows up with driving those results. As we've said many times before, we really don't look at or try to manage those sublines. We target a total revenue number and try to deliver that, and we keep a keen eye on that revenue less transaction cost number to make sure we're delivering really strong unit economics. So, if we can generate the revenue and generate the unit economics, the rest of itself sorts it out.

James Faucette

That's really good context. Thanks Michael.

Operator

Our next question is from Andrew Jeffrey with Truist Securities. Please proceed.

Andrew Jeffrey

Good afternoon. Appreciate you taking the question.

Max, I'm intrigued by the Affirm Debit Plus product, and recognizing that you're not including any GMV or revenue in your guidance, I wonder if you could just flesh out a couple things for us. One, what do you think is the most likely use case mix of Affirm split pay purchases or Affirm loan purchases versus sort of broad use? Then also, how do you think that product affects repayment tender? Does it definitionally result in a debit-based loan repayment? Is there more of an ACH characteristic? I'm just trying to think through the dynamics as this product takes hold and gains traction?

Max Levchin

Those are great questions. I'm not sure I can hit them all but this is like—first of all, it's going to be awesome. I just want to tell you that.

Andrew Jeffrey

All right, too long-winded.

Max Levchin

No, no, no. It's a great set of questions but I am tempering my excitement for the product because I know our industry lawyer is (inaudible) but it is hard to temper it because it is a great product.

First of all, the use case scenario that we envisioned is the one—I've been testing the product more or less daily for the last month or two and I bought an incredible amount of coffee. Public service announcement do not buy pre-ground beans. I buy whole beans only, but it's in the tens of pounds at this point. That is my closest walk to place where I can test the debit card, and it's pretty cool. It works with my existing checking accounts, so when I do nothing it just settles against that in some short period of time, and when I feel like swiping—turning into a pay-over-time transaction, that's what it does. It's super smooth, very quick. It's a physical card so it's no different from one that your bank gave you. The expectation and the intent that we have for this product is that it really takes place as your top of wallet, primary transacting device.

Sort of stepping back for a minute and I'll allow myself a little bit of storytelling.

One way of analyzing this whole BNPL revolution is actually there was like 100 million plus people that basically said, "I'm just going to use my debit card because I don't understand credit cards, but I know they're not good for me.". Intelligent people can disagree, but I generally take the side that if you put it all on a piece of plastic and it revolves and you pay interest on your lattes and your coffee beans and your more expensive purchases, you're doing it wrong. Like, you shouldn't be paying interest on those things. As a result all these people basically said, "Yeah, I kind of get it. I don't have a better alternative, so I'm just going to live within my means and use my debit card." And every once in a while somebody like Affirm or one of our competitors would come along and say, "Hey, you're buying this thing and it doesn't fit into your debit card budget, that's cool. You can use this pay over time solution that we've developed; it's available at the point of sale." That's what they call in math Olympiads (phon) a partial solution. Yeah, it's great, but you don't get full marks for that.

What you really want is a ubiquitous tool that allows you to say, "Hey, anytime I want to use a debit I'm just going to use my debit, and anytime I want to turn it into a pay-over-time transaction, it's got to be very easy. It can't be harder than using a credit card. It has to be as simple and really, really convenient." That's what we built with Debit Plus. That's the most important thing to understand. We fundamentally connected the dots between this partial solution of buy now pay later at the point of sale by moving into the hands of the end consumer built right into a debit card without asking them to change their accounts, etc.

That's why I'm so jazzed about it, probably partially to do with just the sheer amount of coffee that I bought. That's sort of part one.

I would lie if I told you that I knew exactly what was going to happen with all the different repayment modalities, etc. It's still in early beta. A lot of its consumers are telling us it's awesome and we're learning a lot about how they're using this, but generally speaking, the goal is to delight the end customer. This is a big group of people that says, "Hey, I love the idea of having very tight control, sense of financial responsibility and sanity by just paying for things with this really, really simple pay-over-time instrument, and mostly not." What we have built is something that marries the two really elegantly.

That's what we're launching and sort of bringing to market and over time we think there's a lot of other cool stuff to add. I sort of view this software defined payments as a jargony thing that I came up with, but that's the idea. We will continue adding features to the card and the app by software updates. There'll be a lot of fun stuff to add to it. Not announcing any of those yet, but you can imagine how the app has infinite possibilities.

Andrew Jeffrey

Appreciate it. Thank you.

Operator

Our next question is from Moshe Orenbuch with Credit Suisse. Please proceed.

Moshe Orenbuch

Great. Thanks. Maybe to follow-up on that and some of the previous questions, as you expand, as a Affirm is able to expand its marketplace and the consumers that shop there and now with the debit card, can you talk about how the expansion of the TAM that that would provide essentially and how often can you earn affiliate fees? How often not? How do we think about the underlying economics, perhaps, as you're able to expand in those ways?

Max Levchin

That's a really good question. Again, without—I realize that I'm sounding a little bit like a child high on a pile of sugar, but I think this Debit Plus thing is pretty awesome. We wanted to be the primary transactional device for our consumers, so the TAM is their spend, 20 times a month on food and things like that. It's shopping, or it's purchasing, whatever you call it. So, in that sense, we have infinite ambition.

In terms of affiliate fees, I think the important thing there is obviously we've done pretty well. You can see that in our numbers or at least infer it from our numbers there. We are not yet focused on that, to be completely transparent; we're trying to build an amazing experience. We're trying to convince our consumers that this is a far better way of buying things.

Over time, obviously it's of a tremendous value for our merchant partners, whoever our consumers choose to go to and shop, if we brought that customer to them, it's a service that we bundle, if you will, with the transaction itself. There's plenty of sort of advertising or marketing revenue to compete for there. But it served the—that's part two.

Part one is we want the consumer that picks up Debit Plus to say, "This is the best thing ever. I don't really need to use my real debit card anymore because this is better and I certainly don't have to touch my credit card ever again." Assuming we hit that—I was going to say hit that out of the park but I realized that I know what I'm talking about again. The sooner we deliver on—the sooner we deliver on that I think affiliate fees will come. We'll start forecasting that as we measure the actual penetration, but the TAM itself is enormous.

Moshe Orenbuch

Got it. Okay, thanks.

Just as a quick follow-up on the Amazon relationship or test, could you talk about how that will be presented to the consumer? Because there are multiple products that Amazon does offer from a payments standpoint. Anything that you can kind of tell us as to whether how Amazon is going to be choosing to do that or how that process works. Thanks.

Max Levchin

I'm afraid that's what tests are for, to figure out the best presentation, best user interface and, ultimately, we all know what works best and then we'll all see it.

Moshe Orenbuch

Okay. Thanks very much.

Operator

Our next question is from Rob Wildhack with Autonomous Research. Please proceed.

Rob Wildhack

Hi guys, thanks for fitting me in. Just a question on funding.

Michael, you called out drivers on gain on sale for this quarter. I just wanted to get your latest outlook for the demand and pricing trends on whole loans from here and how that could potentially flow through to the level of equity capital required going forward?

Michael Linford

We fund our business with now four different funding tools: securitizations that both get consolidated and then our non-consolidated, forward flow and on the warehouse side. In our earnings supplement, we show a pretty good breakdown of the funding mix by channel. The growth that you saw this quarter was predominantly in securitizations, both not consolidated and consolidated.

When the securitization is consolidated, it does show up on the balance sheet as an asset, but it's really efficient. If you look at the last two deals we've done, we're kind of borrowing 97% or 98%, on average, of the consumer balances, which is obviously just an extremely efficient way to fund it with respect to equity capital.

But to answer your question specifically around the market and the reaction and pricing around forward flow, it remains very strong. I think the demand for Affirm paper in the market is really high. They desire the asset type, which is really short in duration and they acknowledge that we've been really good at underwriting and so they really like the credit quality we can generate.

Rob Wildhack

Okay. Thank you.

Operator

We have reached the end of our question-and-answer session, and this does conclude today's conference. You may disconnect your lines at this time and thank you for your participation.