



Affirm Holdings, Inc.

Fiscal Year 2022 Third Quarter Earnings Conference Call

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PRESENTATION

Operator

Good afternoon. Welcome to the Affirm Holdings Fiscal Year 2022 Third Quarter Earnings Conference Call.

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 Rob O’Hare, Senior Vice President of Finance. Thank you. You may begin.

Robert O'Hare

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 intend 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. For historical non-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

Thanks, Rob, and thank you everyone listening in. We delivered excellent results in fiscal Q3.

- Active merchants grew by more than 16 fold year-over-year;
- Active consumers grew by 137% year-over-year, with greater frequency and engagement;
- Our total transactions increased by 162% year-over-year;
- and highlighting the trust we are building with consumers, 81% of all transactions were from repeat Affirm users.

This is the highest repeat rate that we've ever reported. We accomplished this while another 1.5 million consumers joined our movement to replace confusing, outdated financial products with new, honest ones.

- Our GMV was up to \$3.9 billion, growing 73% year over year and almost doubling ex-Peloton.
- Total revenue was \$355 million, a 54% increase year over year
- Revenue Less Transaction Costs, a key measure of our unit economics, was \$182 million or 4.7% of GMV.

We continue to grow with our existing partners and add new ones. Just a couple of operating highlights since the beginning of Q3:

The Travel and Ticketing segment has been outperforming expectations, and volume more than doubled year over year. Our long-time partners Expedia, VRBO, and Priceline were all in the top-10 by volume in Q3. The quarter also marked the general availability of Affirm on American Airlines and the launch of our first Canadian travel merchant. We are excited to continue growing our network of relationships in this segment.

Affirm continues to be the strategic partner of choice for enterprises and platforms. Adding to existing collaborations with Verifone and Adyen, we partnered with Fiserv and Global Payments to make signing and launching with new merchants frictionless. We are also excited to announce a new agreement with Stripe, unlocking streamlined distribution of Affirm's honest financial products to millions of merchants.

Since the launch of our partnership with Shopify just a year ago, we have seen significant uptake of Split Pay, our biweekly pay-in-four product. We have expanded our agreement with Shopify to bring Affirm's monthly offering to the platform. We plan to start rolling out Adaptive Checkout and simple interest-bearing installments by the end of our '22 fiscal year. As part of this expansion, I am also pleased to report that we have extended our exclusive relationship with Shopify. Lots more details on that in the press release that we just filed.

This marks our fifth straight beat quarter – and proud we are of all of them. That said, we operate Affirm with a longer horizon in mind. Our goals are to deliver value for our customers and improve the lives of consumers. And ultimately, in doing so, generate cash flow to reinvest in our business and create value for our shareholders.

As you will see in Michael's report, we have already delivered profits on an adjusted operating income basis, and this quarter makes it three out of the last five. You'll see in our guide that we still expect to invest in the next quarter, but let me make something very clear.

Our plan is to achieve a sustained profitability run rate (on an adjusted basis) by the end of the next fiscal year. That is to say, we expect to generate revenue that consistently exceeds our adjusted operating expense, starting July 1st, 2023.

We do not expect our plan for reaching profitability to compromise growth, just as we demonstrated this quarter. We also do not plan to raise any new equity capital – because we believe Affirm is fully funded to profitability. We will share our full fiscal year '23 outlook in our next earnings report.

But to say a little more here: we do not see network and revenue growth and margin as quantities in conflict with each other; indeed, our growth combined with strong unit economics is what propels us towards profitability. Consumer demand for our products is significant, and we only expect it to increase, and the value we create for our customers goes directly to their bottom line. Meanwhile, the market penetration in the US is still in the low single digits.

And, at the growth and scale we have already achieved, the increasing rate of repeat transactions (81% today) affords us several advantages, most importantly, economies of scale on fixed and transactional costs, meaningful underwriting improvements, and opportunities to deliver new products to our consumers and merchant partners at a very low marginal cost.

This is why the bookends of this quarter's results are so critically important: we nearly doubled our network volume (ex Peloton) while managing our unit economics to 4.7% of GMV. This is well ahead of our long-term model of 3-4%. We grow our network GMV responsibly and deliberately, with unit economics always firmly in mind.

This is especially so because, as a vertically-integrated network, we manage the risk embedded in our transactions. We've covered our approach to credit underwriting in the past, but I'd like to talk briefly about our credit risk management.

Every time you want to use Affirm to buy something, you have to apply to be approved for that specific transaction. We make it easy and convenient for you to apply, but we will still look at the state of your finances at that very moment (including, among other things, your recent credit usage) and then decide. If we believe you won't be able to pay off your loan, we will, in fact, decline your application – with compassion and transparency – without fail.

As a reminder, we do not charge late fees or allow revolving. In other words, we have a structural incentive to decline a transaction that we believe to be a bad financial decision for you, because approving it is guaranteed to be a bad financial decision for us.

And at our scale of transactions (over 10 million last quarter alone), the dials we get to turn to control credit risk are highly fine-grained.

Another key structural advantage is the very short weighted average life of our loans, which is about 5 months. As the economic cycle changes, the loans we made in the past will have a rapidly diminishing impact on Affirm's future financial performance.

Given our structural incentives to engage in responsible lending, deep commitment to strong network unit economics, and a high degree of control over risk, we strongly believe we are well-positioned for success in a downturn.

During the very brief recession of 2020, we saw applications nearly quadruple at many of our merchants. We believe paying over time without late fees and gotchas will be in greater demand during a downturn. It is our mission to improve people's lives, and we will be prepared to meet this demand — but again — our approach is only to extend credit that we believe can and will be repaid.

The multi-billion-dollar business we have today is the result of years of trial and error, ideation and execution. One of the many attractive properties of operating a network at scale is that it can be very cost-effective to deliver new products and services to a large, active audience. Not all of our new offerings will result in our next billion-dollar revenue line – but we are committed to finding the ones that do.

Last September, we shared some of our product plans with you. We've continued to execute on this roadmap, so let me briefly run through some of what we've shipped in Q3.

Throughout the quarter, we delivered several iterations of the Affirm SuperApp, the single platform for the growing family of Affirm consumer offerings. Each such iteration delivered results, improving user engagement by about 3% and adding over 1% to our in-app transaction volume. These numbers may seem trivially small in comparison to some of our headline growth metrics, but obsessing over user experience compounds. And we have many more iterations planned.

We also rolled out a Chrome Browser Extension, a convenient way to pay with Affirm at online stores where we are not yet directly integrated, using a single-use VISA card while shopping in your desktop browser.

We brought Adaptive Checkout to many new transactional surfaces, including our own Affirm Anywhere product, Chrome Browser Extension, and, as I mentioned, it will be available on Shopify.

We also added Bitcoin Interest to the popular Affirm Savings account – a super simple way for our savings account holders to hold cryptocurrency by choosing to receive their savings yield in Bitcoin.

And debit+.

By now, I suspect some of you might actually have the debit+ app and the companion card that comes with it, so you have already seen what's the first version can do: you can split lower-value transactions into four payments after the swipe and use the automagic pre-approval button to plan larger transactions and feel confident in your spending power. There are many more features coming over the summer and

beyond, most importantly longer-term and interest-bearing loans and Affirm Rewards, but the v1 of debit+ is here and ready.

We know it is because even with this minimalist version, we are seeing an order of magnitude higher engagement among debit+ users (compared to non-debit+ Affirm users) – an average of more than two transactions per week. And the debit+ experience will continue to improve as we release regular updates to our growing user base.

We are inviting tens of thousands of users per day to get their cards and expect to exhaust our now-sizeable waiting list (we appreciate your patience!) and open debit+ to all eligible Affirm users in fiscal Q4. Eligible here means a certain level of usage history and good standing with Affirm.

It is super early, and I am still neck-deep in UX optimizations, but I am truly thrilled to begin what we think will be the era of debit+ – the simplicity of debit and the flexibility to pay at your own pace with no late or hidden fees.

Affirm continues to succeed because of our exceptional team. I've said it before, and I'll say it again – it is a privilege to lead this company, and I would like to thank all Affirmers for marking another waypoint of our journey – and to thank you, our shareholders, for your continual support.

As you can see, we remain focused on what ultimately matters – results. Now over to Michael to review those in detail.

Michael Linfood

Thanks, Max, and good afternoon, everyone.

Our Q3 results, and really our performance over the last several quarters, demonstrate our ability to deliver impressive growth and attractive unit economics, despite a volatile market environment. Once again, we outperformed our outlook for both growth and profitability, and our unit economics were strong.

We continued to grow both sides of our network. Active consumers increased 137% year over year while active merchants increased to nearly 210,000. Total transactions grew 162% year over year, and more than 80% were from repeat users. Transactions per user, our key frequency metric, increased 19% year over year while more than doubling our active user base. And along with that growth, we achieved profitability on a non-GAAP basis, delivering \$4.0 million in adjusted operating income.

We grew GMV 73%, and nearly doubled GMV when excluding Peloton. Our revenue increased by 54% and our measure of unit economics, Revenue less transaction costs, reached 4.7% of GMV. This was a particularly strong result and well above our long term targeted range of 3-4% of GMV. Our outperformance was driven by strong revenue growth, excellent capital markets execution, and better than expected credit performance. While the provision for credit losses increased year over year, as a reminder, last year's provision was net negative given the release of excess COVID-related loan allowance. We also continued to drive greater capital efficiency gains across our funding programs, as the equity capital we used to fund our loans decreased to 2.4% of our platform portfolio versus 4.9% last year.

With the strong growth of our business and continued momentum, we are raising our outlook for fiscal year '22, which I'll discuss more in a moment. Before I do that, let me walk through our third quarter results in greater detail.

Unless stated otherwise, all comparisons refer to our third fiscal quarter of '22 versus Q3 of fiscal '21.

We had another great quarter for consumer growth. Active consumers increased 137% to 12.7 million and increased nearly 1.5 million sequentially from fiscal Q2. This growth helped drive 10.5 million transactions in the quarter, a 162% year-over-year increase. Despite adding users at this aggressive pace, we also saw frequency increase, as transactions per active consumer grew to 2.7, up 19% year-over-year.

In the third quarter, active merchants grew to nearly 210,000 from just 11,500 last year, thanks to the continued scaling of our partnership with Shopify. On a sequential basis, active merchants, which we calculate over a trailing 12-month time frame, grew by 39,000 or 23% from the December-ending quarter.

Turning to GMV. We grew GMV 73% to \$3.9 billion in our third quarter, a \$1.7 billion increase from last year.

As a testament to the increasing depth and breadth of our network, no single merchant accounted for more than 10% of either revenue or GMV for both the three and nine months ending March 31st. This demonstrates the continued diversification of our business, which we believe is a key area of strength and resilience for Affirm.

Shifting to GMV by vertical.

Travel and ticketing increased to \$390 million, up 122% from last year, topping last quarter's high mark. With the recent easing of mask mandates and travel restrictions, we see extraordinary demand to book travel now and pay over time with Affirm. We also remain enthusiastic about consumer demand for live events.

General merchandise grew to over \$670 million, 448% above last year driven by our deepening relationships with the world's largest retailers, which also increases the seasonality of our business. We saw roughly a \$200 million sequential decline in GMV within the category, which was in-line with our expectations given the seasonally strong holiday shopping season in the December quarter.

Sporting Goods and Outdoors declined to \$425 million, down 21% from last year, or 20% sequentially from fiscal Q2, driven by a roughly 40% decline in Peloton offset by growth with other connected fitness merchants.

PayBright, which we acquired on January 1, 2021, nearly tripled GMV, posting annual growth of 198%. We are excited about our prospects and the success we're driving in Canada, as well as our other expansion opportunities currently on our roadmap.

Now, turning to the financials...

Total net revenue grew 54% to \$355 million, well above our outlook of at least \$335 million. Network revenue grew 29%, while interest income increased 42%, and gain on loan sale increased 221%. Revenue as a percentage of GMV contracted 116 basis points to 9.1%, driven by product mix away from longer duration 0% loans and towards shorter-term Split Pay loans.

Split Pay GMV grew over 215% year-on-year and accounted for roughly 20% of GMV in the third quarter compared to just over 10% last year. In our earnings supplement posted to our IR website, you will see

that merchant revenue take rates have remained relatively constant for each of our offerings, despite our hyper growth.

Our strong top line growth and the leverage we achieved on non-provision transaction costs drove a 37% increase in revenue less transaction costs to \$182 million or 4.7% of GMV, well above our 3-4% long-term target.

Total transaction costs of \$172 million grew 78% year-over-year compared to revenue growth of 54%. Excluding provision for credit losses, which was negative in the prior year period, transaction costs as a percentage of GMV declined 1.6 points to 2.7%.

Given the mix shift away from longer-duration 0% APR loans, loss on loan purchase commitment declined 24%, while improvements in our capital programs helped limit the growth in funding costs to just 8%. Funding costs were an area of considerable leverage in the quarter, declining to 0.4% of GMV, down from 0.6% in the prior year period. Provision for credit losses grew from negative \$1 million a year ago to \$66 million, as the year-ago figure included a significant release of excess COVID-related loan allowance, while this year's figure reflects the intentional normalization of credit that we've discussed over the past several quarters.

Credit performance was better than expected across all credit segments, as small optimizations across our Split Pay and large enterprise programs yielded very favorable outcomes. This led to lower allowance rates on new originations across a large percentage of our GMV. Allowance for losses as a percentage of Loans Held for Investment declined for the second consecutive quarter to 6.4%.

The outperformance in Revenue Less Transaction Costs and greater operating leverage allowed us to drive better than expected Adjusted Operating Income in the period. Our Non-GAAP technology and data analytics expense reflects lower than expected personnel costs. Affirm has a robust product pipeline that calls for more talented engineers than we were able to hire in the period. However, we were able to partially address this need for technical talent in early Q4 with the hiring of over 100 engineers, primarily from Fast in early April. We also continued building our brand through sales and marketing investments, but a majority of these expenses were non-cash in nature. Excluding these non-cash expenses that are fully outlined in our GAAP-reconciliation tables posted on our IR website, our sales and marketing expenses decreased by \$1.7 million, or 5% year over year, which represents an annual decrease of 5 points as a percentage of Revenue.

Excluding transactions costs, non-GAAP operating expense grew by \$48.9 million or 38%. Adjusted Operating Income was \$4.0 million in the quarter, or 1.1% of Revenue, which was significantly above our outlook.

GAAP Total Operating Expenses excluding Transaction Costs grew by \$66 million or 19%, driven by a \$102 million increase in warrant expense partially offset by an \$80 million reduction in stock-based compensation. GAAP operating loss was \$227 million, which compares to a loss of \$209 million last year. The \$227 million operating loss included \$217 million of equity-related costs stemming from the previously granted warrants to enterprise partners and stock-based compensation.

Before I move to our raised outlook, I'd like to discuss our funding program.

We fund the business to optimize for stable, consistent access to deep and diverse pools of capital.

We ended the quarter with nearly \$9.0 billion in funding capacity across our 3 main channels - warehouse lines, forward flow agreements with whole loan buyers, and ABS securitizations. 53% of the capacity is off-balance sheet, and all of our bilateral relationships are fully committed and generally in multi-year agreements - with only 31% of this capacity maturing in the next 12 months.

Since the beginning of the fiscal year, we have brought on \$2.5 billion in new funding capacity from new and existing capital partners. In addition to that \$2.5 billion, subsequent to the quarter end, we closed our \$500 million 2022-A revolving ABS transaction. And last week, we also added a new multi-year \$500 million forward flow partnership with a large Midwest-based insurance company. We expect to continue to add capital through both scheduled commitment increases from existing partners and onboarding new partners.

Our capital program is structured to be resilient, flexible, and generate increased velocity as we scale. Let me quickly recap each of our channels:

Our warehouse lines are on-balance sheet facilities with spreads ranging from 1.65% to 4.00% and we are able to advance up to nearly 90% against the loans we pledge. These bankruptcy remote facilities are non-recourse to our parent company, and generally used to fund shorter duration collateral. They also serve as a loan aggregation mechanism for our ABS securitization program. We generally maintain these facilities at low utilization rates - this stood at 37% at the end of the quarter - providing us significant excess capacity.

Our forward flow program represents close to half of overall capacity across a range of diverse partners and provides highly efficient off-balance sheet funding. These programs allow us to earn most revenue up front, and additional revenue over time via servicing income. Further, loans sold to third parties via the forward flow program do not require an allowance for credit losses on the balance sheet, or any related provision expense on the income statement.

Finally, in terms of our ABS securitization program, we have closed 9 securitization transactions that represent roughly \$8 billion of volume since launching the platform in mid 2020. Our deals have performed really well and we just achieved our first 'AAA' rating as part of our most recent transaction.

Just as we have attracted many leading e-commerce merchants and platforms to Affirm, we have also attracted a diverse set of blue-chip investors to our capital program. This is a real competitive advantage for Affirm. We believe our scale and asset quality will ensure that this advantage continues into the future. Affirm is strongly positioned to continue driving outsized growth in the ABS market, which is highly liquid with over \$1.5 trillion outstanding across asset classes.

Now let me share some color on our outlook, which you can see on slide 26 of our earnings supplement. We expect the progress we've made thus far in fiscal year '22 to continue to drive strong growth in our fourth quarter.

Consistent with the public guidance issued earlier this week, we expect the trends observed in Peloton GMV in fiscal Q3 to continue through Q4.

We now expect our Split Pay offering to contribute at least twenty percent of Fiscal Year '22 GMV, with the largest contributor of this volume coming from the Shop Pay Installments program.

We expect a sequential increase in Total Operating Expenses outside of Transaction Costs driven by the recent hiring of the engineering team from Fast in April, and marketing campaigns currently planned the latter half of the quarter.

As always, our outlook assumes the current forward interest rate curve. Finally, our outlook does not assume a material impact from the rollout of Debit+.

For our fourth quarter ending June 30, 2022, we expect GMV of \$3.95 to \$4.05 billion, revenue of \$345 to \$355 million, transaction costs of \$185 to \$190 million, revenue less transaction costs of \$160 to \$165 million, Adjusted Operating Margin of negative 15% to negative 11%, and a weighted-average share count of 290 million.

For our fiscal year ending June 30, 2022, we now expect GMV of \$15.04 to \$15.14 billion, revenue of \$1.33 to \$1.34 billion, transaction costs of \$692 to \$697 million, revenue less transaction costs of \$638 to \$643 million, Adjusted Operating Margin of negative 7.6% to negative 6.6%, and a weighted-average share count of approximately 283 million.

Now, I'll now turn it back to Max for some closing remarks.

Max Levchin

Before we open for Q&A, I thought it would be helpful to quickly recap the state of play and our plans for Affirm.

First, we are laser-focused on scaling the network – increasing our consumer reach and frequency – and going deeper with our existing partners and adding new ones. Our opportunities remain vast, with significant, under-penetrated markets to reach.

Second, we will continue investing in our technology, people, and brand and doing so with discipline. We have roughly \$3 billion in dry powder, and we firmly believe that we are among the most efficient allocators of capital in the industry.

Third, as I already mentioned, with excellent unit economics, consistent focus on risk management, and a diversified capital access strategy, our plan is to achieve a sustained profitability run rate (on an adjusted basis) by the end of the next fiscal year.

And finally – at our core, we are builders, excited by the prospect of solving problems and improving lives. We will leverage our scale and reach to introduce brand new concepts to our merchants and consumers – like debit+ – as we continuously expand our products and revenue lines.

While the macro environment is uncertain, at Affirm, the picture has never been clearer.

We are a category leader with massive growth and rapidly expanding market opportunities as the secular trend towards honest, transparent financial products continues. Affirm is in an enviable position given the depth and breadth of our partner network and our unwavering commitment to financial responsibility.

As the category begins to go mainstream, the opportunities we can capture are only expanding. We have an incredible team and an inspiring mission. We will continue to scale, drive attractive unit economics, and deliver on our mission to improve lives and focus on results.

We will now open the line for questions.

Operator

At this time, we will be conducting a question-and-answer session. Please limit yourself to one question and one follow-up.

Our first question comes from the line of Moshe Orenbuch with Credit Suisse. You may proceed with your question.

Moshe Orenbuch

Great. Thanks.

I think that, Max, the comments that you made about the success with respect to the large merchants and the impact that that's had, maybe you could kind of expand on that because obviously, you've got things that are going on that would potentially be able to add others, and yet you've also got things like what you mentioned with respect to the Chrome browser that could allow for situations where Affirm doesn't have a kind of dedicated relationship with the merchant. So I guess as we look out over the next several years, how should we think about the biggest areas for growth for the Company?

Max Levchin

So the cool thing about building a network—first of all, thank you for the question. Sorry. We've been listening to ourselves talk for a while. So, great question.

So the thing about building a network is you have to continuously balance the consumer side and the merchant side. If we are signing on more and more consumers, we are implicitly adding more places where they might want to go shopping, so it's essential for us to continue launching direct-to-consumer payment products, because if someone says, "Hey, I'm a big fan of brand X, and I came from a store, e.g. Peloton, where I'm not likely to repeat over and over," we have to offer them coverage. Otherwise, they will churn. They will turn into an inactive consumer.

So the browser extension and the app, which has a marketplace feature in it, and the card itself, all the things we're building on the consumer side, they're all fundamentally about retaining consumers and meeting them where they want to go, where they want to shop. So that will continue happening and we see that as both an engagement driver and a revenue driver. Obviously, the products are a little bit different where we don't have a direct integration with the merchant, but it does not in any way reduce our commitment and just attention to innovation on the merchant side.

We have a whole bunch of stuff. I purposely kept my remarks a little bit shorter this time around, but there's a long list of things that we shipped that have to do with merchants. I really did not give any credit to those teams just because I wanted to keep it quick, but we're continuously rolling out really interesting stuff.

The Adaptive Checkout is a really good example of—it's just a very, very fundamental piece of tech that we put together. It is the future of this buy-now-pay-later industry. Consumers do not need to go through many different funnels. They just need to pick the right product for them. Better yet, we should be there, helping them pick the right product. That's what the Adaptive Checkout does. It literally figures out what is the best way of paying for something. So that will continue happening.

Part of why we need to continue hiring engineers, you only maintain strong unit economics, if you're able to offer something that no one else can sell. Competition on price sucks if you have a commodity that

everybody else has. If you're building stuff that no one else got, you can actually sell it at a good price and not worry about someone undercutting you.

Moshe Orenbuch

Got it. Thanks.

As a follow-up question, Michael, one of the questions that we get most often from Investors is in the face of a rising rate environment, obviously you have some products where the consumer is the primary one that's being charged and you have others that's charged to the merchant, particularly the 0% category. Could you talk a little bit about your plans as to how to kind of manage the rising interest rate environment for each of those products, and maybe what you've also done to date, if anything?

Michael Linford

Yes. We really haven't had to take any action to date. If you look at the merchant fee rate slide in our supplement, you'll see, again, relatively constant merchant fees. We view that as a real mark of success that in the face of pretty heavy competition we were able to maintain and even grow in some cases the merchant fee side. Of course, as we talked a lot about on the APR side and the consumer side, those rates are strong enough to allow us to deliver really compelling unit economics. That's the lens through which we look at this question.

It is true that as rates go up, there is pressure on the funding side of our business, but it is a mistake to think about that as a full flow-through on a linear basis. We have many different funding channels with staggered maturities and very different structures. As I mentioned, for example, we just onboarded a new forward flow partner who's an insurance company, and has a very different view of rates and how they think about that versus, say, access to quality assets over time.

That allows us to manage it in the nearer term. I think in the very long run, so going out more than a year, you would expect us to need to start to take action, but that's more of a long-term thing than anything we deal with tactically in the near term.

Moshe Orenbuch

Got it. Thanks very much.

Operator

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

Daniel Perlin

Good evening. Lots of good stuff here.

I wanted to just touch on—and I suspect you're going to kind of tread lightly on it a little bit—but I wanted to touch on this path to profitability on an adjusted operating income basis. My question is when you think about it or when you kind of laid this plan out, how much of this is really a function of some of the scale-driven benefits that you've been able to accrue over the past several years versus really Management's desire to kind of reach profitability sooner?

Then the second piece of that is, is there anything in the macro environment that's compelling you to want to pull that forward? Or is this really in line with your long-term plan that we may or may not have been really aware of? Thanks.

Max Levchin

Good question.

So first of all, the most important thing to take away is that it really is the scale that's allowing us to get there. If you look back a few quarters, you'll see that we're sort of dangerously flirting with profitability without ever saying it out loud. I think it was a useful and intelligent thing to do to tell the market, "Hey, we know exactly when it's going to happen; here's a date," but it's not the same thing as saying, "Ouch, we got to get there fast, so let's pull some tricks and do unnatural things." Not at all. So in that sense, it really is the function.

The difficult thing was to build a product that commands a price and maintains a good margin, and to be disciplined about credit. You can grow 10x faster if you just approve everyone and some of our competitors do that. It's a lot easier, but you then have to deal with bad losses. We are not okay with bad losses or losses that we can't control. So those are all things that we've always done, and that's the scale advantage that we have today is the variable revenue or adjusted—I'm going to trip up on my accounting terms, Michael will correct me later—but at a certain scale, your fixed costs get overwhelmed by your variable revenue is basically what's happening here.

So yes, the statement about profitability is fundamentally about telling the market, "We've always had a plan. We know where we're going. Here's the save-the-dates." We'll continue to invest. We are not doing unnatural things to get there.

Daniel Perlin

Yes. No, that's fantastic.

Just a quick follow-up on the engagement. Here again, very impressive. You said 2.7% in the current quarter. Last quarter it was 2.5%. So that's all happening at the time you've got this massive, active customer increase. The question I have here is, are you finding that in that repeat usage, the 81% versus kind of 75% last quarter, are the consumers using the same product again as in they come in as a Split Pay user and they're always a Split Pay user? Or are they finding that within that 81%, there's some diversification and they may even mature into other products?

Are you able to not steer them but incentivize them, I guess, or maybe educate them into other options that may even be better for them? Thank you.

Max Levchin

It's a great question.

There's definitely a lot more to unpack there than I suspect the time allows. Here's just like bullet points that are sort of easy to rattle off.

So the probability of repeating at the same store is, generally speaking, highest for a majority of stores. There are some unique stores where you're just not going to come back because you already have a

treadmill to run on. But vast majority of time, especially for some of the largest partnerships, it is highly likely that you will repeat at the store where you came from.

Two, there is definitely propensity to repeat on the same product initially, but as each cohort matures and we have more opportunities to teach them what else Affirm can do for them, it widens.

Three, there's a fundamental difference between the behavior of people that have our app and the ones that don't. That is just a profoundly different behavioral pattern, and I could write a small science paper on that one. Once you're using the app, you're basically starting to think of Affirm as a replacement for your "purchasing device." Let's use that in quotes.

Let's see, what else can I say very quickly? The last thing that's worth knowing—so, Adaptive Checkout, which I sort of bragged about a little earlier is basically—you can think of it as a router for financial tools. We have sort of unpacked the credit card, the idea of like hey, just swipe your card and we'll figure it out later, into actually a really convenient user interface.

The big thing that we have to accomplish here is we have to continue offering you the choice but we kind of have to guide you to a good decision because already we have a lot of choices and you are used to being no choice version of your credit card. So Adaptive Checkout is that idea. It's this canvas where you say, hey, here's three choices. This one is no interest at all. This one is a little bit longer term, but has some interest, etc. As we deploy that across more and more services, you will see more product cross pollination.

We're right in the middle of just pushing that very, very hard. Like literally, I'm watching the first numbers coming in from some of the deployments outside of our own products, and probably next quarter, we'll start talking about what that cross pollination really looks like.

Daniel Perlin

That's great. Thank you so much.

Operator

Our next question comes from the line of James Faucette with Morgan Stanley. You may proceed with your question.

James Faucette

Thanks very much. Thanks for all the details today, guys.

I wanted to ask about on your credit performance, you said it had been a little bit better than you'd thought, Michael. Can you talk a little bit about how you're managing that right now, especially with the changing environment? Are you being more restrictive at different points, or are you finding that that isn't necessary yet? Just wondering if you can give a little color in terms of how you're managing the credit applications and going out of credit right now.

Max Levchin

I'll start, and Michael will probably give a more precise answer.

So we always manage it exactly the same way. We have not at all changed our approach. We look at both vertical and horizontal slices. We ask the question, how is this component of American society doing, Canadian, Australian? How are they overall in terms of their job security and sort of the policy set sort of this horizontal slice? Then vertically, we ask the question, how are the sales in this merchant category? We know what folks are selling. We know if it's selling better or worse, which means that the advertising campaigns that drive consumer demand can reach audiences that are potentially overextended already and maybe shouldn't be borrowing.

So all of that feeds into the policy setting. Then we tune it, but we tune it all the time. It's not a thing that we sort of get together and say, "All right, it's been a quarter, let's talk about it." We talk about it literally every Monday morning. There is a triage conversation about credits with our Head of Risk in the room with the Executive Team and we review all of our numbers and say, "Hey, how do we feel about the American consumer at the highest level?" Then we dive deep into, "Here's this product, it's called Split Pay, how is it doing on Shopify?" So that's what we're doing.

It's performing a little bit better typically means that the precautionary steps we took were slightly less necessary than we expected, at least one or two degrees to the right or to the left. It's never, let's pull a handbrake, and we overtightened or something like that. We really do not run it like a bank would. This was very, very evocative. Michael probably has better numerical answers.

Michael Linford

I think the other thing, guys, is we look at the unit economics in the business, whether you measure that through the financial statements like we do in the revenue less transaction costs or you look at it on a horizontal basis, and we make sure that there's enough economic content, and we make sure that we make credit decisions consistent with that. The things we're always looking at is based upon prior originations, how are they trending against the forecasted numbers. Given the very short duration of our asset, we're able to get that signal very quickly to feed it back into decisioning.

If you just look at where we're at right now, we did better on the revenue less transaction cost line in large part because we performed better. This is a bit of a counter signal to what you're seeing in a lot of other companies right now, and we attribute that mostly to the fact that we're pretty careful on the front end, and we're very diligent about managing it. as Max alluded to.

James Faucette

Got it. I appreciate that.

Then when we look at your adding additional capital partners and commitments, etc., how are you feeling about where you're positioned now with kind of those commitments versus your growth targets? Is there a lot of cushion there? I know you haven't given guidance for next year, but obviously, I would assume that those carry into next year, etc. So just wondering if you can give a little bit of nuance and color of where you're at versus where you want to be on both capital commitment and how that relates to your growth ambitions generally?

Michael Linford

Yes. I think the easiest way is we feel really, really good. We ended the quarter with \$9 billion of capacity. We actually have over \$10.1 billion as we sit here today, additional capital that we talked about on the call, the 22A deal in the ABS market as well as the onboarding of the new forward flow partner. Both of those two are just, we think, massive endorsements of the product. I think it's a good time to remind

everybody that there is widespread support for the asset we generate in the capital markets. We have not seen that be a real difficulty.

We have seen the overall macro market change. So that changes rates, it changes spreads, but the asset underneath it, the asset we create, continues to be something that all of our capital partners both understand and value, and even the rating agencies value it, as I talked about, the AAA rating on the senior tranche in our last ABS deal. That suggests we're producing really quality assets and it's linked back to the credit question.

So if we keep our eye on the ball and produce good assets like we have been and will continue to do, we feel really good about it. We're not giving guidance like you said, for Fiscal '23, but we feel very good about where we stand. If anything, I think you're going to see us continue to be slightly larger on capacity or lower in utilization because of the macro concerns, even though we actually don't have those as a Management team.

James Faucette

Got it. Thanks for that input, Michael.

Operator

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

Jason Kupferberg

Thanks for all this, guys.

So yes, just a couple of things. Maybe I'll come back to the sustained profitability messaging. Just wondering if you can quantify that at all? I'm just thinking back to the Analyst Day last year when I think you guys had said that adjusted operating margin would get to the 0% to 10% range once revenue growth had slowed to 20% to 30%, GMV to 30% to 40%. So is that the right way to think about where you may exit Fiscal '23? Just wondering how we should view that in light of the Analyst Day? Or do you feel like this is a little bit of a kind of updated messaging just given how much the macro environment has changed?

Michael Linford

Yes. Thanks for the question, and I appreciate the way you word it.

This is definitely, as we say an and. This does not replace our prior nor is it meant to suggest that we think growth will slow. Quite the opposite, as Max talked about. To be brutally clear, we do not think that the decisions we'll take in order to get us to that breakeven or better adjusted operating income will result in any sort of slowdown in growth, period. In fact, the growth will allow us to achieve it and the focus on unit economics will get us there inevitably. So please don't read into us suggesting that the growth rates will slow. Quite the opposite.

We feel very good about the growth into next year. While we're not giving any guidance today, I think there are a few trends that are worth highlighting. The first is that, remember, we'll be experiencing the full year for both Shopify and Amazon. Not just the full year with those deals, but the full year with expanded product rollouts. We talked about the expansion on Shopify to new products, including Adaptive

Checkout, but also all the optimizations that Max talks so often about, where it's the sum of a lot of little things that we're doing with these large partners. That's going to be a key avenue for growth for us.

As always, we talk about Debit Plus as a thing that will continue to be very incremental to any of the current run rate in the business. So we feel really good about growth into next year. We're not giving any guidance, but please don't hear our profitability target as any indication that we expect to slow down. Quite the opposite.

Jason Kupferberg

Very helpful.

Then just on gross profit, on revs less transaction expense, you're going to exit this year based on your Q4 guide just at or maybe a hair above the top end of the 3% to 4% longer-term range. I know we'll have to wait until next quarter to get kind of a full complement of guidance, but is there any reason to believe sitting here today that you won't be able to comfortably stay in that range next fiscal year?

Michael Linford

Absolutely not. We feel very strong about our ability to deliver that in any market environment, and we'll continue to use that as the range to talk about in the business. This quarter saw us pretty materially above that range. Again, I would characterize that as being a little bit warmer than we want it to be; 3%, 4% is a very good range for us. This is the fifth straight time we've hit our commitments and we would expect to continue to do that, and we're committed to do 3% to 4%.

Jason Kupferberg

Good to hear. Thanks for the comments.

Operator

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

Ramsey El-Assal

Hi. Thanks for taking my question this evening.

I want to follow-up on Jason's last question. In terms of the timing of the ramp of the Shopify expansion and also of the Stripe deal, should we think of that as just hitting 2023 rather than having an impact later this year? In addition, how long is the Shop renewal for? I think I saw in the press release multiyear. I'm not sure if you can tell us exactly how long it was for?

Michael Linford

Yes. Last question first. It's all the way through June of 2025.

The timing, we are in the midst of rolling out additional products to Shopify right now, as Max mentioned. It's uncertain if it will have any material impact in the next six weeks of the quarter, but feel good about it. I think that and the Stripe deal are much bigger going into Fiscal '23.

Then Max maybe you can provide some color on the Stripe deal?

Max Levchin

Sure. The Stripe deal is super cool. Basically, one of the common delays, if you will—when we sign a merchant to launch them, they kind of always say, “Hey, how long is it going to be before we can go live?” and we say, “Hey, we’ve got to put two lines of JavaScript into your checkout and onto your product page and off you go. And then we have to integrate with your payment system and plumb, if you will, the settlement and money transfer and everything.”

If you have a deal with an existing payment provider for that merchant—e.g. FIS or Global Payments or Adyen or Stripe, which is the latest one—you can literally replace that whole backend integration with, “Yes, we’ll just route Affirm transactions on the rail that has already been put in there by Stripe.” That’s literally flipping a switch to an enormous number of merchants that have partnered with Stripe. It’s really millions in their case.

We also have a bunch of really interesting projects planned with them that probably are beyond the scope. Again, I would want you to not think of them as an immediately accretive thing, but it is a vast market opportunity that we’re very, very excited. As a longtime friend and fan of Stripe, and full disclosure Investor in the company, we’re very happy with the partnership there.

Ramsey EI-Assal

Great. It sounds like a pretty...

Max Levchin

It’s all about creating these avenues for more growth for many years forward. That’s what this is all about.

Ramsey EI-Assal

Perfect.

A follow-up for me. Sales and marketing expense was down quarter-over-quarter quite a bit. I guess, first, how should we think about that line going forward in terms of where it might stand as a percentage of revenue? But in addition, as you ramp with the larger platforms and brands like Amazon, Shopify, etc., will that have a positive impact on your marketing spend? Can you rely on their brand and their marketing spend effectively to kind of take some of the pressure off your P&L?

Michael Linford

So first, on a non-GAAP basis, you did see sales and marketing come down quite a bit sequentially and really even on a year-on-year basis. That is mostly due to the timing of some marketing campaigns that we run. We talk a lot about this, but our marketing activity isn’t tied to in-quarter revenue or GMV generation. The kind of investments that we have been making over the past year have really been around building a brand and building awareness in the consumer, which has a less direct and less tied to in-quarter performance measure. That’s why you are able to see in this quarter, really strong growth despite pretty substantially less amount of sales and marketing on a non-GAAP basis.

I think going forward, we're not prepared to give you any indication about the shape of the P&L or where we expect those lines to be, but obviously, as we work ourselves towards breakeven or better on adjusted operating income line, we would expect leverage across all of our fixed cost lines.

Ramsey El-Assal

Great. Thanks.

Operator

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

Andrew Jeffrey

Hi. Good afternoon. Certainly appreciate you taking the question and appreciate the conviction, Max, as usual.

Michael, we get a lot of questions about the fin side of the business, not as much the tech side of the business. A couple of things stand out to me and I wanted to ask first about just the platform portfolio and funding mix, Slide 19, the fact that equity capital required is actually down to 2%. There was a lot of talk about a securitization that didn't get done intra-quarter, for example.

Is that a sustainable level? To me, that's super impressive, especially given all the concerns about liquidity that seem to be swirling around the market and around Affirm in particular.

Michael Linford

Yes. I appreciate the question.

Yes. I think we have said that we would like to be below 5% on a sustainable basis and feel like that's a good range to be at. You'll see an ebb and flow quarter-to-quarter based upon how much forward flow or one-time deals might happen, and this last quarter saw a securitization happen early in the quarter, which I guess folks weren't really attending to that actually allowed us to move quite a bit of our 0% paper off the balance sheet. You can see that at the top bar on that chart, there you see on that slide. That will continue to be the way we want to operate.

We want to be both durable in the quantum of capital that we have access to, we want to deliver the unit economics that we have signed up for, and we want to be very efficient with the Shareholders' capital. We definitely never want to let growth be impacted by our capital program. So, we are always going to be overfunded with excess capacity, and you have seen us do that this past quarter and we will do that into the future while still delivering those strong units.

So I would say that it would be below 5%. I don't know that it would stay in the 2% range sustainably. Again, I would just reiterate that I think our team is doing a very good job executing in these pretty volatile markets. We are pretty proud of the access to capital that we enjoy right now because we generate a high-quality asset.

Andrew Jeffrey

Yes. That's clear. I appreciate that.

Then, Max, maybe a question—I know it's early on Affirm Debit Plus, but can you talk about any learnings or thoughts about inflows and the ability to drive direct deposit attach , and what you think the opportunity is for growth from more recurring spend on that product?

Max Levchin

Let's see. I promised myself and Michael that I will not jump out with a bunch of cool stats, and yet as an engineer, I am prone to them. Here's a cool one. The number one most visited physical retail used by Debit Plus consumers right now is Walmart groceries, which I think it's probably true for a lot of America, but it's to me, super anecdotal. So just ignore it, if you will, but it tells you that a subset of consumers that we have given the card to have now used it to buy groceries, which I think, that's probably the sort of warmest, fuzziest news I've heard about the product so far.

It's super—this is a very, very baby product. It has on the current UX rev is 180 something and it's going to be in the thousands before we are satisfied there. But the fact that people are using it to buy food is the best indicator I have heard. We want it to be top of wallet. We want it to be the thing that people take to go shopping for their family, to give them financial flexibility. I have a lot of miles and a lot of commitment to this product to go.

In terms of shareable statistics, it's growing at ridiculous rates right now, but it's also completely self-stimulated in the sense that we are finally opening up to a bunch of waitlist users. So of course, it's going to grow at crazy rates. At some point, it's going to even out and then we will know what the natural growth rate looks like. We will open it up to the entire Affirm base once the waitlist is cleared out. You will just have a button in your Affirm App saying, "Hey, do you want your card?" So we just need a little bit more time to scale.

Michael Linford

My team is alerting me that I misspoke a little bit earlier and Q3 was an interest-bearing not a zero percent. In any event, it got off sheet in (inaudible) execution. I wanted to make sure that got read in so that I don't get attacked.

Andrew Jeffrey

All right. Well, very cool. I appreciate it. Thank you.

Operator

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

Dan Dolev

Hey guys. Thanks for letting me ask my question.

So just really quick, can you give us a sense of sort of the interplay between the reserves and the charge-offs? Charge-offs are rising; reserves seem to be coming down. Like how much of it is, Michael, like denominator/Split Pay difference—mix difference? Then I have a quick follow-up. Thank you.

Michael Linford

Yes. The allowance is always the current estimate as a percentage of loans held for sale, the current estimate of future losses. So that 6.4% where we ended at, that's where we would expect it to be on a percentage basis. If you want more of a kind of backward-looking measure, that's where we show the delinquency performance and you can see that's trending on—I guess, it's Slide 21 of the supplement, you can see where that's trending.

Charge-offs are a bit difficult to get too much information out of it, given that we charge off at 120 days. So it's pretty difficult to really get a sense of how credit performance is reflected through the charge-off line. Again, the short duration of our asset makes that doubly true.

Dan Dolev

Got it.

Just one last data point, if I may. I don't know if I missed it, but can you give us like some GPV estimates for Shopify and Amazon?

Michael Linford

Yes. Unfortunately, I can't. No. But what we did say on the call...

Dan Dolev

No one's listening. It's okay.

Michael Linford

Dan, you and I both know that's not true. The thing we said in the call, the prepared remarks, which is true, is that no partner was more than 10% of GMV or revenue on a three-month and nine-month basis, so you can get some sense there. We also showed you the General Merchandise category, which is inclusive of some of the largest retailers in the world, grew to over \$670 million. So those are the stats we can share.

Dan Dolev

Okay. Great. Thank you. Great quarter.

Operator

Our next question comes from the line of Rob Wildhack with Autonomous Research. You may proceed with your question.

Robert Wildhack

Hi guys. Thanks for fitting me in.

Just as a percentage of funding debt, the funding costs in the quarter were quite a bit lower. Can you talk about what's going on there?

Michael Linford

Yes. I think that reflects a number of factors, I believe, which is execution. Remember we talked about it a lot, rates moving does impact us, but not in the near term. Most of our capital is locked in and committed. Very little of it is truly floating. If you look at our warehouse lines, that limits the amount of funding rate exposure that we have. Then just generally, we have a lot of very well-executed capital markets activity over the past 18 months that reflects in really strong performance.

Robert Wildhack

Got it. Thanks.

Then bigger picture, I think the Adaptive Checkout seems to be a real linchpin of all the deals that you have announced recently, specifically from the enterprise partners. Max, you talked about it a little bit, but anything to add on why that product kind of stands out as being particularly interesting to those partners?

Max Levchin

Sure. A couple of different reasons, and we talked about this before, so I apologize if this is sort of old news. Vast majority of large enterprise partners that we have won picked us because we span the entire gamut of products possible. If you are just a Split Pay specialist, it's great. But if you sell both bicycles and bicycle tires, you will need two providers. If you are picking a technology partner, and you want it to scale, you want it to be good at underwriting, you want it to have a good capital markets, you don't want to go out of business, we fit all those criteria really well, but the one thing that we do have is we have excellent well-performing products that meet the price point that the consumer needs.

We have also products, that's great, but you still may have to integrate those products multiple times. Adaptive checkout was this idea that what if we gave you just one single integration, and we will guide the consumer to the right financial choice for them so that the consumer satisfaction actually accretes to both us and the brand, that we are literally helping the person live a healthier financial life. It certainly has resonated with our partners. It's certainly really resonated with us because it's extremely on-mission. It allows us to just continue driving savings in terms of paid interest to consumers and better conversion to the merchant.

So it's almost a meta product. It's infrastructure for multiple products that we have built in the past to live together in harmony in a single page. It has been really well-received by the market. You're right in that set. Some merchants, by the way, are not really appropriate. If you only sell apparel within sort of a very tight \$30 to \$50 price range, you might not care about the ability to pay for things over 12 months. But if you are Walmart or an Amazon or many, many, many other merchants that sell multiple SKUs in a fairly wide range of price points, Adaptive Checkout is the ideal product because you only integrate it once, it has all the same properties of Affirm, and it self-changes to meet the consumer need on the spot without the person having to configure anything.

By the way, it also supports things like 0% deals. All the stuff that we're famous for that we have done so well over the last 10 years, it's all baked inside a single integration.

Robert Wildhack

Very helpful. Thank you.

Operator

Our last question comes from the line of Bryan Keane with Deutsche Bank. You may proceed with your question.

Bryan Keane

Hi guys.

Just a couple of quick ones. I guess just thinking about the tightening of the credit market, has your guys' transaction acceptance rate changed at all given kind of where we are in the market? Then secondly, when we look at delinquencies, is there a reason why it's excluding Split Pay now on the slide on 21? Maybe I missed that piece? Then where do you expect delinquencies to track at these levels kind of through the fiscal year? Thanks.

Max Levchin

I completely blanked on the first part of the question, but of course it's written in front of me. Sorry. So, the transaction approval rate has not changed very much at all. Again, like we really manage this at a merchant-to-merchant, basket of risk level to basket of risk. There's multiple different acceptance rates. They are really, really quite different. It's just really important to think of Affirm as a—if you need one number, it's a weighted average and the weights are quite dramatically different from bucket-to-bucket.

That said, the weighted average right now is roughly the same. The reason for it isn't because there aren't people paying more or less of their bills but because the application rates that we have, the number of people asking us for a loan, vastly exceed the ones that we are actually going to approve. Vastly is a little strong. The approval rates have remained pretty good and will remain the same. The point there is our job is to rank risks. We have been quite good historically and intend to remain in the future, very, very good at rank ordering applicants that come through.

We approve the ones we believe can pay their bills. Then after that, we stop. The number of people that ask that can't pay their bills does not seem to be changing very much. So the approval rates, therefore, have remained roughly—or the acceptance rates have remained roughly the same.

As I have tongue-tied my way through this one, I will let Michael take care of the other half.

Michael Linford

Yes. So the DQ chart does now exclude Split Pay. The vast majority of our balances on a total platform portfolio basis are no Split Pay. The Split Pay asset is a 50-day asset. We have \$120 charge-off policy. So, as you can imagine, the way that actually works, and with respect to the delinquency calculation, doesn't really make sense to look at on a DQ basis. We think it's pretty misleading to look at it that way.

In terms of where it's going, we would expect to continue to track at or below the '19 levels on a portfolio basis based upon our current projections.

Bryan Keane

Great. Thanks for taking the question.

Operator

Ladies and gentlemen, we have reached the end of today's question-and-answer session. This does conclude today's conference. You may disconnect your lines at this time. Thank you for your participation, enjoy the rest of your day.