



Affirm CFO Fireside Chat

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Presentation Participants

Affirm

Rob O'Hare, Chief Financial Officer

Truist

Matt Coad, Equity Research Analyst

Presentation

Matt Coad

Okay. Awesome. So my name is Matt Coad. I work at Truist Securities covering Payments and Fintech. And I'm really pleased to be joined by Rob O'Hare here. Rob has been with Affirm for a little bit over 5 years now, and he's been in his current seat as CFO for a little bit over 1 year. Rob has a pretty awesome background. I'm jealous of it. He's previously before joining Affirm was CFO at 2 smaller tech firms. He also worked at Square in Finance & Strategy. And prior to that, he spent some time on the buy side and in investment banking. Rob, thanks for taking the time to talk to us today.

Rob O'Hare

Yes. Thanks for the warm intro. Great to be with you, Matt.

Matt Coad

Awesome. So just in terms of format, Affirm like some of the other fintechs, they like to loop in the retail questions here, which I think is great. I have several questions prepared, and I'll loop in the retail questions. And with that, let's get into it. So topic is du jour, Rob, like everybody wants to talk about volume growth, right? So that's going to be our first topic here. And I'd like to start with a topic like this from a 1,000-foot view, right? So my first question is that there are a ton of different payment methods available to consumers here in the U.S. Why do you believe BNPL has had so much success so far? And then specific to Affirm – a retail investor and Emanuel O. asked, “With plenty of BNPL players in the market now, what is the Affirm's moat?”

Rob O'Hare

Yes, great question. I think for us, we believe Affirm is the market leader in the U.S. And I think when you look at why we've had the traction and the growth that we've seen, I think it really comes back to what are the problems that we're solving for consumers on the one hand and also for merchants on the other hand. And I think really Affirm is unique in that we have the widest breadth of product offerings. We can be incredibly flexible on terms. We can do anything from a \$35 loan out to a \$35,000 loan. We can underwrite as short as 30 days and we can go as long as 48 and, in some cases, 60 months. And so I think that product breadth is really unique.

Most of our competitive set is pretty focused in Pay in 4, which is really a 6-week loan product. And while Pay in 4 is great for certain purchases, as you go out on the average order value spectrum into bigger tickets, we think that consumers need longer terms and more cash flow smoothing. And so to do that part of the business well, the longer terms and the higher ticket loans, underwriting really is front and center. And I think that's where the business started. We were a team of technologists at our founding that wanted to create a better real-time credit score for point-of-sale transactions. And we've worked on that problem for close to 15 years now at this point. And that's just -- it's so ingrained in how we go to market, how we build products.

And also, I think the other thing that is maybe a bit unique about Affirm is that we've never charged a penny of late fees in our history. And that means that we're aligned with the consumer, right? The most profitable loan for us is the loan that gets paid back and paid back on time. And we never profit from late fees. We don't profit when our consumers stumble. And so again, that really puts the onus on getting the underwriting right, and that's how we treat the consumer well, but also how we drive conversion and incrementality for our merchants as well. And so we -- it's rare that we look at a problem just through one

lens. We want to make sure that we're doing our best for our merchant base and also that we're treating the consumer well and putting the right offers in their hands.

Matt Coad

Rob, I think that was a great summary. And kind of like turning to the volume growth discussion for quarter-to-date because it's a big topic for investors. We're trying to wrap our heads around how the calendar year 4Q, big quarter for you guys is shaping out. On the positive side of things, right? You continue to take meaningful share. But against that, the industry at large is facing a tougher comp for e-commerce spend this quarter. So with that in mind, I was just hoping you could opine a little bit on near-term trends and what's going on there?

Rob O'Hare

Yes. I don't think we've ever given an in-quarter update on volume. It's just not part of our IR program. That said, we do take our outlook incredibly seriously. We put a ton of rigor into the ranges that we set. And the business is definitely performing in line with expectations. I know there's been some chatter from some third-party market estimates that are out there. I can't speak to their accuracy for the industry at large, but I can tell you that the estimates that we've seen from those third parties for Affirm, there's just significant tracking error this quarter, and I'll leave it at that. So we're incredibly bullish on the opportunity that we're pursuing. The business continues to perform really, really well. And I'm really excited with what I've seen so far this quarter.

Matt Coad

That's super helpful, Rob. And we always have to try, right? Like I know that you don't give a quarter-to-date number, but we'll always ask. Just...

Rob O'Hare

No, we fully understand and with these third-party data providers, I mean, sometimes they're -- I'll be honest, sometimes they're quite accurate. This quarter, they're not. And so we fully empathize with the investment community on that point.

Matt Coad

For sure. And then one from Christy S. She asked, "What are the trends you are seeing with consumers? Are you seeing any increase in credit defaults by your customers?"

Rob O'Hare

We really aren't. I mean, the consumer today feels quite healthy. Most of our transactions, it was 96% last quarter came from repeat borrowers. So these are borrowers that are on their second or more loan with Affirm. And what we see in the data empirically is that each subsequent transaction with a consumer tends to have lower default rates. So we're in the fortunate position where we're growing at really, really healthy rates, and we're also doing it with consumers that we know pretty well, but also have done a good job, I think, of growing the consumer base every quarter as well.

So with that set up, we're just -- we're really not seeing any sort of stress within our repayment rates. We're seeing delinquencies and the inverse of delinquencies, repayments come in, in line with expectations. And we really do pride ourselves on keeping our hands on the steering wheel, if you will. And so we're always staring at the credit data, the delinquency data, and we want to make sure that we're really nimble

and quick to adjust if we do see signs of stress, but it's just -- it's not what we're seeing in our loan book today.

Matt Coad

That's really helpful, Rob. And we'll dig into credit a little bit more later in the conversation here. Next one on volume growth. So like you've mentioned, it's been really strong for Affirm, right? So year-over-year GMV growth last quarter was 42%. And one of the big drivers is the success of the Affirm card. What we thought was pretty interesting is if you look at the year-over-year contribution to that 42% volume growth, historically, it was around mid-single digits. Last quarter, it accelerated to 8% and if you look at the attach rate, it seems like the improvement in the attach rate is accelerating as well. So I was hoping that you could just kind of like talk about that volume growth contribution from the card. How you're thinking about that moving forward?

Rob O'Hare

Yes. A couple of points there. First and foremost, we still think we're really, really early into the opportunity with card. We have an internal goal of getting to about \$7,500 in spend per active cardholder and we'd love to get the cardholder base up to 10 million cards. So we're about 1/3 of the way there on both of those metrics today, a bit higher on the spend per cardholder. So again, that tells us that we're really, really early against the opportunity set. The great thing about card is; one, it's the fastest-growing part of Affirm. And it's also one of the most profitable parts of Affirm. So we benefit in card from the dynamic that I spoke to earlier, card is today a repeat usage product, meaning that most of the consumers that come into card have found Affirm through one of our point-of-sale integrations typically, and then they're taking card as a way to deepen their relationship with Affirm.

And so again, we benefit from the fact that these are repeat users and therefore, credit losses are a bit better than we would see for a brand-new user, if that makes sense. So that's a real positive. And then we've seen the product mix has skewed really favorably from a profitability perspective as well within card. So the business at large has been about 70% interest bearing for the last several quarters. We see closer to 80% mix of interest-bearing transactions and GMV within Affirm card. So that helps a lot with profitability of the card because interest-bearing loans are our most profitable loan product.

So with that set up, really, we want to make sure we do everything we can to educate our user base and to drive users to card as rapidly as we can, right? There's just so much to like about the product. It's -- and as a result, it's been incredibly high growth. So we're really doing everything we can to make sure that we educate our user base, that the card is available to them. I think one of the great benefits of card is that, while Affirm has a pretty enviable footprint with integrated merchants, there are still merchants that haven't integrated with us yet. And I think Buy Now, Pay Later as a category isn't as far along in penetrating in-store activity in commerce. So I think card is a great unlock for both of those situations where maybe a merchant doesn't have an Affirm integration or you're trying to get all of the utility and financing products that are available to consumers through Affirm, you're trying to get that through an in-store experience.

And so I think -- again, I think when it comes down to what's the problem that card is solving for consumers. I think it's just -- it's broadening the reach of Affirm, and it's putting all of the utility that Affirm offers to consumers through e-commerce largely today, putting it onto a card that they can use anywhere.

Matt Coad

Yes, Rob, that's super helpful. I think one important thing that you mentioned there was educating about the client, right? So from the outside looking in, it seems like you guys have kind of like prudently tried to grow this business, and you haven't like aggressively marketed the card yet. But you kind of -- like how I'm

starting to think about it is like the more data that you get, the better you'll feel about this underwriting, maybe you'll market a little bit more aggressively moving forward. So could you talk about that push and pull right? Like when do you think you'll reach the breaking point where you have the data where you're just like, okay, we can meaningfully increase the attach rate now?

Rob O'Hare

Yes. I mean we're incredibly proud of the traction we've had with cards. But that said, we're at 2.8 million active cardholders over the last 12 months as of the September quarter. And when you look at the base of consumers that we've transacted with, that we've underwritten, I mean that population is still an order of magnitude and then some larger than the active base that we have. And so I think the most prudent way for us to continue to grow the business, and the business has -- the card business has compounded at triple-digit rates for the last several quarters now, we think that continuing to go into the base of consumers that we know, the base of consumers that we've approved, we think it's a great way to reinvigorate consumers that maybe haven't been active with us in the last year because we're adding more surface area and more usability to Affirm through card for those users. So that's where we're focused today. And never say never, but right now, we still feel like we're early in the opportunity set just with our existing base of consumers.

Matt Coad

Got it, Rob. That's really helpful. So next one is kind of a 2-parter, like first from the retail investor and then one similar question for me. So Havnan G. asked, "How competitive is Affirm compared to banks?" And related to that, a partnership that we found really interesting is your new partnership with FIS, right, where you'll enable their bank partners to offer Affirm to consumers through their existing debit cards. So my second follow-on question to that is, do you view banks more as competitors compared to partners? And how significant could this partnership be with FIS?

Rob O'Hare

We think the FIS partnership could be really, really compelling. And just to maybe give the elevator pitch for the project, we think that this is an opportunity for banks that have a meaningful consumer base that's using debit cards through their bank, but maybe a bank that doesn't have a large credit card program, which several small and midsized banks operate that way. We think this is -- this gives them the opportunity to participate in credit-like transactions, Affirm financed transactions, and it can be pretty compelling.

It's a way for them to keep more of their consumer spend within the 4 walls of the bank and bring more utility to their debit card user bases. So we think it's a great value proposition for the banks. We're excited to partner with FIS on this. Obviously, it's a great way for us to broaden the reach of Affirm card, which, as we just spoke about, is a product that has a really nice profitability profile. So the hope is that this is creating a win-win-win across banks and FIS, of course.

Matt Coad

Super helpful, Rob. And then next one I wanted to ask about, speaking of win-win-win, you kind of stole the words right out of my mouth there. I look at the 0% APY monthly installment loan product is kind of like a win-win-win for merchants, consumers and Affirm. And you guys are kind of like leaning into this product, right? You had the 0% days recently that I thought -- I think Max interestingly called it the big nothing days on your earnings call there. I was just hoping you could provide a little bit more color on the growth here and maybe how Affirm is becoming more of a marketing tool for merchants?

Rob O'Hare

Yes, we were really happy with the results that we saw during the big nothing days. It's important to remember, this is really our first time with a concerted marketing campaign and a series of promotional days on our own surface and just organizing, executing, launching an event like that, I think we built a real muscle that the Affirm network from a consumer perspective is now large enough where when we run promotions, both consumers and merchants pay attention and want to be a part of that.

So I think that -- there was a great validation just in the outcomes that we saw with the big nothing days, and it's certainly something that I would expect that we do again in the future. And there was a lot to like about it. I mean obviously, we saw an uptick in volume through the promotion over the course of those days. But maybe a more nuanced positive of the event was that we actually saw an uptick in new card sign-ups as well.

So again, I think just goes back to -- we're looking to grow card by educating the base of consumers that we've already brought into the network. And as those consumers came to Affirm surfaces, so our marketplace, our Affirm app, we saw an uptick in card registrations as well, which is a huge positive for us because, again, as I mentioned earlier in this call, there's just so much to like about card. It's very, very profitable, and it just expands the surface area and the reach for consumers to be able to use Affirm. So again, another sort of positive byproduct of this event, there's just so much to like about it. And like I said, I think we'll certainly -- I hope that this becomes a regular part of what we do every year at Affirm.

Matt Coad

No, I hope so too, Rob. If you look at -- I was one of the consumers that participated in there, my girlfriend loved Alo Yoga, had a ton of good 0% deals there, and she loves that brand. So -- so yes, you definitely made my Christmas shopping potentially a little bit better with that offering. So thank you for that.

So I want to move on to the second part of our conversation. So we just talked about volume growth. Second part of the conversation, I'd like to talk about your partnerships, right? And I think these are critically important for Affirm as you look to essentially put Affirm in front of as many consumers as possible as a payment option. So arguably your most important partnership, you just renewed with Amazon, right? I was hoping that you could touch on that a bit, including some detail and how you continue to deepen your integration with Amazon and improve the consumer experience there?

Rob O'Hare

Yes, I won't be able to get into too many details on the contract itself, but I think it was a great milestone for the program that we were able to renew for another 5 years. The program now extends through January of 2031. It was a 5-year renewal that will kick in at the end of this, what we call program year, the program year ends in -- at the end of January. So again, I think we're so proud of the program that we've built with Amazon and just the conversion we've been able to bring to the program, the number of new users that we brought to Amazon and to Affirm. It's been, again, I think a win-win on both sides. And I think that was reflected in the fact that the terms were renewed largely in line with where we are in the current program.

So really not kind of a nonevent from an economic perspective for Affirm, but obviously creating that longer runway for the program, which on the Affirm side I think we're really, really proud of. There's just -- it's hard to overstate how much time and effort on the Affirm side goes into continuing to drive really small wins every day on the conversion front. And those wins in their totality, I mean, they've created a program that's very high growth, very large in terms of scale, and we still see a runway ahead of us to make further optimizations as well.

So one tangible example is this concept of connected accounts that if you're logged in with your Amazon log in on the site, we should be able to leverage in a high privacy way, we should be able to leverage the credential that you have with Amazon to take as much friction as possible out of our checkout flow on the

Affirm side, out of the underwriting that we do and making sure that we get you to the end of that checkout in the most expedient way possible. So there's concepts like that, that we've been able to trial at Amazon, and we want to take those wins and make sure that we leverage them across the entire portfolio as much as we can. I mean, Shopify is another good example where the consumer often has this sort of logged-in experience with Shop Pay. And we want to make sure that, again, we're removing as much friction from the checkout as we can. And still, of course, get the data that we need to do a proper underwriting for the transaction. That's critical and core to Affirm, but we want to make sure that we alleviate friction for the consumer wherever we can. So I think those are a couple of examples. We're always looking for ways to drive higher conversion at all of our merchants, but Amazon and Shopify, in particular, like I said, we've got large teams there. And oftentimes, some of the things that we're able to figure out on these larger platforms. There's applicability into our broader merchant base, merchants, large and small. And so we want to make sure that we share any wins that we find in our largest programs across the entire portfolio.

Matt Coad

Really detailed answer. Next one, and this is a retail question, I think it fits into the partnership angle. Emanuel O asked, "How does Affirm plan on establishing a footing in agentic shopping with big name players starting to get involved there?"

Rob O'Hare

Well, I think that if you zoom all the way out, Affirm wants to mean something to our consumers' transactions. And so if consumers are choosing to use Agentic to check out, we want to be there to provide fair and honest financing for those transactions just like we would if the consumer was finding a merchant or a good through online search or through some other medium. So again, I think for us, partnerships are going to be important. We've announced the partnership with Google, we're part of their agent payments protocol, which they call AP2.

Similarly, we have a deep and long-standing partnership with Shopify and hope to be a part of what Shopify is doing with Open AI. So again, I think consumers have voted with their feet. We're the largest BNPL player in North America. And I think it's important that our financing products are there at the end merchant and are part of any sort of checkout flow, whether it be agentic commerce or otherwise.

Matt, can you hear me?

Matt Coad

Rob, did I lose you? So I lost you during that answer. I'm not sure if the clients did as well, if you don't mind repeating it.

Rob O'Hare

Apologies for that. Yes. So I think the question was just how do we -- how do we become a part of the agentic ecosystem if and when it takes off. And again, I think for us, it really starts with partnerships like we would expect that Affirm is part of -- I think we have a right to win and be part of any transaction that occurs. And in the case of agentic, we've announced partnerships with Google. We're part of their AP2 protocol, which we expect them to be an important partner and an important part of this ecosystem. And then similarly, we also have a long-standing and deep-rooted partnership with Shopify and would expect to be a part of Shopify's efforts given the partnership that they've announced with OpenAI.

So I think partnerships are going to be critical to establishing a footprint here. And I also think, with the size of the consumer base that we've amassed of more than 24 million largely in North America, I think it's

important for merchants that the Affirm financing products are available through any sort of channel that the consumer chooses to engage with that merchant. I think, ultimately, it's good for the merchant, good for the consumer, if the consumer is getting the affordability that Affirm helps to provide.

Matt Coad

That's helpful, Rob. And you're a pro here. I feel like you just led me into my next question. So you've probably done this once or twice before. But next one I wanted to ask about Shopify right? So great long-term partner with you guys. You guys are now in GA with Shopify in the U.K. And the question I wanted to ask you on this topic is just compared to when you went live with Shopify in the U.S., how might your go-to-market efforts here be a little bit different now that you're going live in the U.K. just because BNPL is already a pretty prominent payment method over there?

Rob O'Hare

I mean as it pertains to Shopify, I really -- I think that the go-to-market and the continued scaling of the program in the U.K., with Shopify, I think it will -- it will hopefully be very similar to what we experienced in the U.S., and we really started to scale Shopify in the U.S. in the summer of 2021. So it's not like BNPL was nascent in the U.S. when that program launched. So I think actually, the setup is probably more similar than it is different with the U.K. And if you remember, sort of the milestones that we crossed as part of the U.S. program with Shopify, really, it was, of course, co-building the product with Shopify getting it into the hands of some alpha and beta merchants to make sure that water was flowing through the pipes.

And then from there, we got to general availability and the milestones there were to make sure that we were driving the level of conversion for the merchants and for the program at large, that Shopify expected that we expected too. And so once we were able to clear those internal hurdles, we then moved to a phase where Shop Pay installments, which is the product that we built with Shopify was auto on for new merchants and also for the existing merchant base. And so that will be the next leg of growth for us in the next big milestone in the U.K., and it's going to come back to when is the product ready for prime time and ready for that scale point. And I think we're well on our way that we continue to see progress around conversion. And so I'm confident that we're on the right trajectory. And again, the success that we saw with the U.S. launch gives us a lot of confidence that we can hopefully replicate that success in the U.K. as well.

Matt Coad

That's really helpful, Rob. And you kind of touched on this in a couple of your previous answers on Amazon and agentic commerce. But one other partnership that I think is interesting is with Google, right, and not on the AI side of things, but just with Chrome Autofill, right? So I believe it was a couple of months ago that Affirm became a payment method that was included in Chrome Autofill. Could you talk about the opportunity there for you guys and then your ongoing partnership with Google?

Rob O'Hare

Yes. I mean, similar to card, right, we're all about finding as much expansion and increased distribution as possible. And I think Chrome Autofill is another great example of that from Affirm. For folks on the call, if you haven't used the Autofill product within Google and within Chrome, it's really incredible. It's a great way to transact with Affirm, and we're sort of there at every checkout if you look for the drop-down. And so again, the reach that Chrome has obviously is incredible. And it's really an exciting partnership for us and one that we hope will continue to bear fruit from a volume and conversion perspective.

Matt Coad

Really helpful, Rob. So turning from partnerships to credit, which being the CFO, I'm sure you're asked about credit all the time. When I talk to investors about Affirm, sometimes investors may get a little bit spooked, right when they see that 40% of your receivables come from nonprime consumers. But despite that -- and that's a little bit higher than most of the credit card issuers out there. But despite that, historically, your DQ rates are well below peers, right? So could you talk about your underwriting process and what differentiates Affirm's offering compared to peers on credit?

Rob O'Hare

Well, I think that maybe one of the biggest differentiators is that we're underwriting the transaction. Of course, we want to be aware of who the consumer is. But really, at the end of the day, we're underwriting the transaction. And we're asking, does the transaction make sense in the context of the merchant. Does it make sense based on the mosaic that we're able to pull together on the consumers' ability to pay. And I think that gives us an advantage because we create a loan that on average is quite small. The average order value last quarter was in the neighborhood of \$260.

And the average term length for our installment loans is roughly 12 or 13 months. And so you have to remember that our loans pay down every single month. And so if God forbid, we got it wrong in terms of the underwriting, if we were too inclusive or even the other way, if we were too restrictive, it didn't have a high enough approval rate, then we can make adjustments really, really quickly that at our scale point, we're originating over \$100 million of loans per day. So that's a meaningful sample size. And we study the performance of those daily cohorts as they get to their first payment event to understand are delinquencies in line with expectations? Are they better? Are they worse? And we can be really nimble, and we can be very fine grained in our adjustments to make sure that we're driving credit outcomes that are in line with our expectations.

So I used the analogy earlier that the hands are always on the steering wheel. We're always staring at the most recent cohorts that are coming to that first payment event. And that's a really good leading indicator of whether or not we have the right underwriting posture with consumers. So again, I think we stare at this data every day. I think we're unique in that we're underwriting every single transaction, every single time. That allows us to, again, be much, much more nimble than a credit card model, which is giving a consumer an open to buy across several years. And so the credit decisions that a credit card company makes can live with them for years. And as there's volatility in people's lives, but also in the macro environment, again, you're sort of stuck with those pre-existing credit decisions on the credit card side. And we just -- we don't have that, and that served us really, really well.

Matt Coad

That's super helpful, Rob. And moving on to our next section that kind of -- it's just like looping in all the financial questions here. So we're going to start with one from retail. So Raoul M. asked, "Qualitatively are there still meaningful opportunities to reduce transaction expenses as a percentage of GMV? Or are you approaching a structural floor here?"

Rob O'Hare

Yes, it's a great question. Maybe if we just unpack what sits in our transaction costs. I think we can talk through each of the large buckets and I'll share my views on those constituents. So maybe starting with credit costs. Really, the most important thing for us is that credit outcomes are in line with our expectations that our underwriting models are able to sort risk and predict credit outcomes. It's rarely for us about minimizing like it's not realistic that we're going to run with 0 credit costs in the business. That's just not the business that we're in.

And I think if you're looking at credit costs, you also need to keep in mind the revenue that the loan is generating. And so there is a sort of a risk-reward equation there that's flowing through our underwriting.

And I think we've done a really good job of driving predictable credit outcomes, but the goal was never to get to 0 credit losses. So I think credit losses can still, of course, exist as a transaction cost but also be in a healthy spot. And right now, when we look at the overall portfolio, when we look at the approval rates that we're driving, the take-up rates from consumers when we put a loan offer in front of them, the conversion lift that we're driving for merchants, the overall profitability of our loan book, we feel really, really good about all of those metrics. And so that helps to inform how we set the underwriting posture.

But we really do believe that credit costs are an output. It's something that we feel like is in control, and we can dial the credit models up or down if we need to, to either react to a changing credit environment or if we have headwinds or tailwinds in profitability elsewhere, we can always make adjustments to the credit posture to make sure, again, that conversion and overall profitability to Affirm are in the ranges that we want them to be. So I think that's really important. That's how we think about it. It's not necessarily a minimization game. It's about setting the right posture and making sure that we're being compensated for the risk that we're taking and that is showing up in the P&L.

On funding costs, we've got an amazing team internally that we call Capital that manages our entire funding ecosystem, and they've done an amazing job of executing across all of the primary funding channels that we use, whether it be warehouse facilities that we have with large banks, we've been a regular issuer in the ABS market through a couple of different shelves as they call them. And then we've built a really nice, large and diversified program that we call forward flow for third-party loan buyers. So these are wholesale loans to loan buyers. And so across the board, we've seen really strong execution. I will say the execution there is highly dependent on creating an asset that has a predictable risk profile.

So all of the work that goes into underwriting. It's not just for Affirm's benefit. It's for the capital markets as well. And I think the capital markets have increasing trust that when Affirm makes an underwriting decision. It's a good one, and it's one that is predictable and repeatable. And so that served us really well with the execution that we've seen on the funding side. And I'd be remiss if I didn't call out that -- if you look at the September quarter, our funding costs were down, I think, 98 basis points on a year-over-year basis. So that execution is really showing up in lower funding costs. We're in sort of the mid-6s in terms of our overall cost of funding. Where we go from here, in some ways, will be dependent on the rate curve, of course, but we want to continue to demonstrate really high-quality -- really high-quality loan origination and really predictable credit outcomes. And I think that will help us hopefully continue to bring spreads in against wherever the underlying interest rates land.

And then lastly, we have processing and servicing. So how do we -- what does it cost us to service the loan book from a consumer perspective? We also have a certain large partnership that has a revenue share that flows through that line. So -- and then the last big bucket of cost there is just the cost of repayment. So when a consumer repays us, do they pay us back with the bank account? Do they pay us back with the debit card and there's different costs in different mix across those instruments.

So we're always looking to optimize the cost of repayment, making sure that, of course, the north star there is that the consumer pays us back. And so we want to make sure that we don't introduce undue friction for the sake of saving a few pennies. But overall, I think we've done a good job of continuing to optimize the mix and make it as -- and remove friction from the various ways that a consumer can repay a loan. So that's important -- the network is ongoing and prioritized internally. And then we do -- as we've seen the average loan value ticked down a bit over the last several years, really, those costs are fixed on a per loan basis. And so -- there is a little bit of disleverage if you will, that comes with an agent servicing a \$260 loan versus maybe a year or 2 ago, they were servicing a \$300 loan.

And so we want to make sure that we remove as much friction and maybe confusion from the product as possible. So we're always trying to make sure that there's a good feedback loop from our customer support staff back into product to make sure that the product is as frictionless as possible for consumers. But again, there's been a little bit of disleverage just as average order values have ticked down. The good

thing is we've seen frequency tick up as average order values have ticked down, which ultimately in our network business is really, really important.

And then lastly, on the revenue share that we have with the large partner, that's a really great expense, right? That tells us that the program is working and scaling. And so I don't get upset about those expenses in any way. Like I think we're really proud of that partnership in particular. And again, it's not about minimization for all of the costs. It's about making sure that we optimize where we can.

Matt Coad

Rob, that was super helpful, and we'll touch on this in a couple of questions, but your overall incremental margins kind of prove that your business model and the network business model is a really good one. So you may be seeing these economies of scale in certain parts of the business from the lower AOV. But overall, the margin profile of the business is really good and improving. We actually have a retail question that loops into what you were talking about with the processing and servicing line. So Christy S, asks what ways are you innovating regarding your customer service? And can AI play a role in improving that offering for you guys?

Rob O'Hare

Yes, certainly. I mean, we've introduced a bot to help on the customer service side, and we want to make sure that first that we do no harm in terms of how we're treating the consumer when they reach out to Affirm. And so far, the data has been really promising. We've seen what we call containment rates, meaning that -- is the problem solved by the first agent that the consumer is engaging with, whether it's a live human or whether it's a bot. And so far, the containment rate is higher with the bot. So that tells us that we're on the right track.

Obviously, there's a bit of leverage that comes by using the bots. But we've been really, really happy. And we measure all this. We're an incredibly data-driven organization. So we track things like Net Promoter Score and want to make sure we understand does the person or bot that you engaged with when you call in, does that impact your Net Promoter Score. Right now, we're seeing an improvement in Net Promoter Score when someone's interfacing with a bot. So that tells us that we're on the right track. And hopefully, there's more that can be done there to drive, like I said, sort of more efficiency and optimization.

Matt Coad

No, that's really helpful, Rob. And pretty rare, I would say, in the industry if you dealt with any banking apps and some of the bots that you have to deal with there. So that's pretty interesting that you're seeing the better NPS score when somebody uses the bot.

So next one, kind of on financials here, and it's probably your favorite topic, and I'm shocked that we haven't talked about it yet, but it's the RLTC take rate, right? So you guys have been pretty clear, right, with the 2026 guide, you're guiding to 4%. The guidance for the first half of the year is a little bit above that guidance for the back half of the year is a little bit below that. There's some seasonality there. I was hoping you could talk through the moving pieces, right? Investors, I think may be overly focused on a mix shift to the 0% APY loans. But I think there are a number of offsets for that adverse mix shift that's going on in the business for this KPI for you guys. So could you talk through all the moving pieces?

Rob O'Hare

Sure. I mean, as I mentioned earlier, card -- Affirm card -- is a very profitable part of the business and the RLTC, the revenue less transaction cost, take rates for card are accretive to the overall business. And as we've discussed, card is one of the -- if not the fastest-growing part of our business, and it's got real scale.

So that's definitely accretive to margins and to growth but to margins in the context of this discussion. And so really for us, I mean, it's about making sure that we maximize the opportunity that's in front of us. We've got an immense opportunity just in the U.S. alone.

I mean, the revolving credit balances for U.S. consumers is something like \$1.25 trillion, right? So not a small market in any way. And in a lot of ways, the upper bound of 4% RLTC, the idea and the thinking there is just to make sure that we continue to maximize and grow as rapidly as we can. And there is -- we want to make sure that we're not overly focused on profitability. Profitability is, of course, always a first-class citizen in any plane that we build, but we want to make sure that we're putting the right offers in front of the right consumers. And I think 0% is a great example, right? 0% monthly installment loan might be slightly dilutive to our overall RLTC take rates.

But so far, what we've seen in the data is that there's a really, really attractive lifetime value to the consumers that start with a 0% loan, and it opens up the Affirm product set to maybe a newer part of the credit spectrum that we're not serving through our everyday interest-bearing offerings. So it's really important, again, it's less about getting the take rate down to a certain basis point with ultimate precision, it's more about making sure that we've got the right mix of product offerings to make sure that we're able to reach as many consumers as we can. So I think that's how we've been approaching it. That's why you've seen us with revenue less transaction cost tracking above 4% for the last several quarters. I think 5 out of the last 6 quarters, we've been above that upper bound that we've set as a long-term goal. That's why you've seen us lean into 0% offerings a bit more.

We've also had really great execution on the sales side that's helped build the 0% business. But yes, ultimately, we want to make sure that we continue our lead in the market and that we have a loan product that works for consumers across the credit spectrum.

Matt Coad

Rob, it's super helpful. I hate to bring it back to my own example, but right, I was Christmas shopping on Amazon last night. There was a good 0% offering there. You're buying these high AOV products? And if it wasn't for the 0%, right, like you probably wouldn't have gotten that incremental volume from me, I would have just used my credit card, right? So like new customer, good offering there, getting the incremental volume, I think it makes sense.

Rob O'Hare

And I think that's right, and that shows up in our data, right? We believe that at the very least, we shorten the consumers buying cycle where consumers may be out comparison shopping or waiting for a sale. And with a 0% offering, I think it changes the psychology of a purchase, and it removes some of those barriers and some of those other things that we're looking for. And ultimately, in a perfect world, we're partnering with the Chief Marketing Officers at our merchants to help them drive price integrity by not having to discount and using 0% to sort of appeal to maybe that higher FICO borrower that might be really price conscious and sort of waiting for the perfect moment to buy. We hope that we can shorten the sales cycle for our merchants.

Matt Coad

No, it makes total sense. And then just on this metric, I just had an email come in, there's some seasonality, right, in the metric to be aware of. So is there really nothing to see there in terms of the first half versus second half guide? Is that just kind of like typical seasonality? Or is that mix shift? Or is that conservatism? Like how should we read into that guidance?

Rob O'Hare

Yes. I mean I think we were pretty intentional about setting minimums for most of the metrics that we guided to on a full year basis. And then I do believe there was a squiggly line in front of the 4 where we set the expectation for the revenue less transaction cost take rate for the full year. So I think we were intentionally imprecise across several of the FY '26 metrics. And so I understand the math that some people are doing where they're trying to get to precision in the back half of the year, but that really wasn't the intention for the guide. And obviously, we'll refresh our views if we have an updated view when we announce earnings in the next call.

Matt Coad

No, it's really helpful, Rob. And I think it's refreshing. I think it makes sense to guide that way. Like you're giving us the floor right and then we can go from there. So no, I appreciate how you guys provide guidance.

Moving to closer to the bottom line, right? So thinking about the EBIT and your incremental margins there. You guys -- your team recently mentioned that you owe us a new margin target, right? You blew passed your 2023 Investor Day targets. I don't expect a new target here. But I mentioned this in a new -- and I referred to it in a previous question, right? Like if I use RLTC as your denominator in my incremental margin targets, our calculations, your incremental margin has been running north of 75% over the past couple of years, and that's best-in-class in the space. So can you just kind of like talk about the business model? And what drives those really high margins for you guys?

Rob O'Hare

I mean ultimately, we believe that we're a software company that has applied the software to a credit problem. And I think that's what's really showing up in those incremental margins that you referenced, Matt. I mean the way that we're staffed, the way that we approach new products, new programs, typically, we have our teams working on those projects and programs a year or sometimes two years, sometimes even longer before those become meaningful parts of the volume and the scale.

And so I think we've benefited from that in the P&L. All of the work that went into co-building the product with Shopify. I mean that work started a year or maybe 2 years in some cases before the program really, really scaled with merchants in the summer of 2021. So I think that's -- you're seeing the benefit of those projects bearing fruit now in the P&L in really meaningful ways. And we're really proud of the efficiency that we've driven. I think operating leverage has become a really important part of how we build our annual plans every year. We're committed to driving more operating leverage in FY '26, and that's shown up in the guide.

And there are, of course, some variable costs that come with all of the growth that we're seeing that are in the OpEx base. So Amazon Web Services, right, the compute power to run the underwriting models to process all the applications and transactions that we see. There is a compute cost to those and those sit within that OpEx base that you're referencing. But otherwise, like we want to make sure that we're being as efficient as we can, while also continuing to leave some space in the P&L to build the products and the programs that are going to -- that we're going to be talking about in calls like this in a year, in 2 years and 3 years.

And so we've been pretty ambitious about expanding into the U.K. We want to make sure that we get that right. But we don't think that we're done from an international expansion perspective with the U.K. So more to come on those fronts, of course, but it's about making sure that we drive as much efficiency as possible, but also that we leave space for continued new product development and continued innovation.

Matt Coad

Now it's nice to have those high incremental margins to reinvest, right, in those future investments, so that makes a ton of sense. Naturally, when we talk about great margins and free cash flow generation, people want to know about capital return, right? So we have a couple of retail questions. And the one reads, as Affirm becomes sustainably profitable, how do you think about prioritizing the use of those profits between reinvesting for growth, strengthening the balance sheet, and eventually returning capital to shareholders?

Rob O'Hare

Yes. I think returning capital to shareholders as we look ahead to the next several years, that -- that's probably the area that is most likely. I'd be remiss if I didn't call out that we have been buying back our 2026 convertible bonds as those bonds have traded at a discount. We've been opportunistic about retiring that liability. And I think that's obviously a really prudent use of capital because that liability is going to come due about this time next year. And so anything we can do to capture a discount that exists in the market. I think that's good for Affirm and for its shareholder base. So I would expect that we continue to hang around the hoop, if you will, to make sure that if the bonds trade off for any reason that we're there to be a backstop and make sure that we capture that discount for our shareholders.

I think longer term, it may make sense for us to have a share buyback program in place when the time is right. Again, I think right now, we're focused on the 2026 bonds and making sure that we focus there first because there is a real and finite return. But we've seen a lot of volatility in Affirm's stock as our cash balances continue to grow, like it may make sense to allocate some of that capital to return it to shareholders in the form of a share buyback, but not making a commitment to that today. But again, I think that's something that could make sense for us in the future.

And then you think about the other sort of classic capital allocation buckets. M&A, M&A is another one. We haven't been active in any sort of material way on the M&A front for several years, but we are -- we do have a corporate development team that does a really great job of canvassing the opportunity set for potential acquisitions. And so never say never there, but again, it's been a while since we've transacted, but that could be another area where it makes sense for us to buy something versus building it in-house just to accelerate our speed to market. So that could be an area that we allocate capital to.

And then lastly, I think the other classic one is a dividend. I think that's probably the furthest away from us today. I mean Affirm is still very, very much a growth company and we're a market leader. And as I said earlier, we're attacking a really immense opportunity just in the U.S. alone. And obviously have ambitions to be a global business as well. So I don't think that a dividend makes sense for us at our current point in the life cycle, but down the road, you never know.

Matt Coad

No, Rob, it super helpful. And I just have one last one here before we call it a day. So you kind of touched on it in the margin question, right, like certain long-term investments that you could make. And I know on last quarter's earnings call, one of my peers tried to get Max to maybe talk about earned wage access or something like that, and he doesn't want to talk about any product launches before they launch. Totally makes sense. But if you think about kind of like Affirm's mission statement, so it's to deliver on honest financial products that improve lives, you're doing a ton of that today, but I bet you think you can do a lot more. Is there anything that you could give us in terms of current seed investments that you may be making in the business to kind of like fulfill that mission statement as we think 3, 5 years out?

Rob O'Hare

I mean I think international is probably the most tangible one for us today, right? We're still just live with Shopify in the U.K., and I think we have a lot of work to do to get that program scaled and we've got high hopes for how successful that can be. And we don't think we're done expanding into Continental Europe with the U.K. And again, there's other markets that when we look at the globe, we think could make sense for Affirm's product set and our partner set, frankly.

So I think that's probably the most tangible one that I would leave you with is that we endeavor to be a global business, and we need -- there's a lot of work that goes into standing up a new geographic market for Affirm. We need to make sure that we can do the underwriting that we need to do. We need capital partnerships. We need to engage with regulators. We need to localize our product set. And so that's probably the best example of where you should expect Affirm to continue to travel as we look ahead.

Matt Coad

Got it. Noted Rob, that was great. Thanks for taking the time today. Before we call it a day, any kind of final remarks that you want to leave people with here?

Rob O'Hare

No, I don't think so. Just yes, really excited about where the business is and I really appreciate all the engagement from our retail shareholders and also all the thoughtful questions from you, Matt. So thanks for doing this, and great to see you.

Matt Coad

Thank you, Rob, and have a good day, everybody.