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Presentation Participants

Affirm

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Morgan Stanley

James Faucette, Equity Research Analyst

Presentation

James Faucette

All right. We'll go ahead and get started here. Thank you all for joining us at the Morgan Stanley TMT Conference 2026. Definitely excited to have Affirm and its President, Libor, here. Thank you very much for joining us today.

I have 2 things to say, A, this is probably the presentation that I'm most excited about this week, at least in my coverage group, so I hope I don't mess it up. And secondly, you're the only company for whom I have 3 pages of questions. So we're going to get going quickly here.

Libor Michalek

No pressure. No pressure. All right.

James Faucette

So before I get started, though, please see Morgan Stanley's research disclosure website at the [morganstanley.com](https://morganstanley.com/research-disclosures) research disclosures. And if you have any questions, please reach out to your Morgan Stanley sales rep.

All right. So, Libor, great to have you here again with us at the 2026 TMT Conference. I guess maybe before hitting on the consumer and the secular tailwinds to BNPL, I want to start with the market's reaction to earnings, which seemed to be largely predicated on 2 key areas. First, let's talk about you kind of -- or the way that the outlook was -- or communicated, it contemplated some deceleration in GMV growth in the second half of the year. Like how should we think about that? Why would that be the case? Why would that not be the case? Where's potential variance there?

Libor Michalek

Probably the biggest reason or probably the biggest driver for that was the previous year's year-over-year growth. The previous year was on the order of, what, 40%, 45% year-over-year growth in that quarter. So I think when we look at it over time, over multiple years, it's more of a normalization to what we think of as growth within the year. That quarter, Q4, specifically of last year was also pretty -- quite a bit of Walmart volume, which obviously rolled off into our consumer business coming after that. So we're now lapping that parting of ways. And so that should also cause a reversion to the mean. But if you look at last quarter, in Q2, we saw even without that partner, we saw an acceleration in year-over-year growth. So we're pretty...

James Faucette

Yes. So it sounds like, look, there's a reason you had great second half of your fiscal year, first half of last calendar year. Walmart, you had volumes through June. So you're taking that into account. But there are some other things. The consumer is good. You had your 0% promotion at the beginning of October. That was helpful.

Libor Michalek

Yes, yes. Well, I mean, consumer both on the demand side as well as on the repayment credit side, all of that looks quite healthy, and we're really excited about that. But yes, then last quarter, all of, what we call, 0% days, the Big Nothing, a lot of demand there, which was really exciting to see, especially testing those

waters. We didn't see pull forward. We saw just an aggregate increase in volume across the quarter. So that was also nice to see.

James Faucette

Got it. So let's talk about -- I think, one of the hardest things that people have had -- have to deal with when modeling Affirm's business over the years has been the ebbs and flows of 0% promotions, right? I mean this is merchant funded particularly when that happens, I mean, trying to anticipate well what the impact on RLTC margins might be.

No, there's clearly some level of RLTC margin dilution drag when you're running merchant funded at 0% versus interest bearing. But on the other hand, I don't think you would be doing this if it wasn't meaningfully dollar accretive. So maybe you can expand on that point and help us understand what you think investors might be missing on the trade-offs.

Libor Michalek

Well, I mean I think it is -- I shouldn't say I think it is. It is ultimately dollar accretive. It also drives engagement, both on the consumer side as well as the merchant side. One of the -- obviously, consumers like it. They get the incremental benefit. We see increase in user retention, increase in user subsequent transactions, which obviously are accretive.

As importantly, on the merchant side, it is an important lever for how the merchants manage their own businesses, how they think about driving conversion, how they think about promotional offers. Sometimes the merchant just needs to clear out some inventory to make room for the next year's models. It's a really effective way for them to do that.

And so we make that available. We think it's a really cost-effective way for them to deliver value to consumers to be able to ensure their conversion, their growth. And so ultimately, dollar accretive, and we remain pretty committed.

James Faucette

So how much benefit do you get from a customer profile perspective with 0% promotion even when it's merchant funded? I mean, I guess, I've always felt like, on top of the things that you described, you also will tend to be able to attract a consumer that maybe is either higher FICO and/or has more purchasing power. And then to the degree that, as you say, as you get better retention, et cetera, just kind of continues to improve the quality of the base. But is that fair? Does that happen? What are the caveats that you put on that?

Libor Michalek

It does happen. I mean that is the primary reason to do it. We see a great user retention, right? When we think about a longer time horizon, we talk a lot about our annual actives, 25 million users using the product every year. But when we zoom out and we look at something like a 4-year time horizon, it is -- it's a large number. It's like 40 million users. And their probability of using the product, again, approaches 80%.

So that kind of retention, that kind of usage is, A, really encouraging on the product side, but we do want to foster that through things like 0% where it's specifically target -- targeted at the users where it actually has the most impact, where it is unit economic positive. It's a transaction that might be coming in at a lower margin, but that transaction wouldn't have happened without it. And it is still dollar positive. So...

James Faucette

Right, right. It's not like you're sacrificing something else.

Libor Michalek

Yes, it's not like we're giving away money to something, right, to the -- that is negative. So...

James Faucette

So let's talk about -- you kind of mentioned it in your preamble comments, but let's delve in a little bit into consumer health and credit. Certainly, last -- the second half of last calendar year, there was some wobbles in other parts of the credit market that made people a little bit skittish around maybe what was happening with the consumer. What are you seeing with respect to consumer spending, repayment data, et cetera? Anything that you would call out incrementally in terms of quarter-to-date trends?

Libor Michalek

Unfortunately, no. It's actually surprisingly and positively boring, I mean, in terms of we see healthy consumer demand across a large range of merchants and services. We continue to see repayment in line with the expectations and the numbers we're managing to. So there's nothing that is jumping out as particularly concerning or noteworthy.

Obviously, we manage it very, very actively. We're looking at this every day, every week. And the short weighted average life of our product lets us react and lets us pivot if we need to, but we're not changing right now anything in terms of what we're originating or what the credit box looks like.

James Faucette

Got it. So let's talk about the -- so these were kind of some of the near-term questions that we've got and certainly, recur almost all the time. I'm sure you hear them as well. But let's talk about the secular BNPL tailwinds in TAM generally. You can just see it in the statistics. BNPL keeps gaining share, especially within e-commerce but also within consumer credit more broadly. What do you view as kind of the main structural drivers of that shift? And do you believe that share gains can persist rather than plateau over the next few years? What needs to happen for that to continue?

Libor Michalek

That's a great question. I think that it will persist over the coming years. I think that there's a number of things that we look at that's -- whether do we look at other markets -- smaller markets but other markets in the world, where BNPL has been around for longer. Certainly much greater penetration in those markets suggest that as a share of e-commerce currently on the order of 8% to 9% for BNPL at large in the U.S., other markets are north of 20%. And so that's positive.

On the addressable market side, at the end of the day, it is a -- we're delivering consumer credit. It is a better form of consumer credit than revolving credit cards. It is knowable upfront exactly what a consumer is getting into. They know how much it's going to cost, no late fees, no revolving, no deferred interest, just a plain what you see is what you get.

So I ultimately think that, on the longer term, it is a natural replacement for revolving credit. And that's the TAM. \$1.1 trillion, \$1.2 trillion of revolving debt shouldn't be revolving. It should be on very closed-ended fixed purchase financing.

James Faucette

Got it. So let's talk about TAM expansion. Maybe understandably, BNPL was at least historically framed around retail goods. But we see the Affirm button popping up into other categories, including high ticket prices, services oriented. We were talking about beforehand how much the team, particularly Max, loves the Affirm logo and being in as many places as he can. So I'm sure he's happy to see that.

But at the same time, we tend to get a lot of questions about does this change, A, maybe the economics but also the risk associated with it with your consumers, especially when people think about people using BNPL, if you will, to buy things like fast food, et cetera. And what has changed that's made those categories that are now open to you?

Libor Michalek

That's a great question. I mean it's an ongoing question at both ends of the spectrum, dollar spectrum. Obviously, smaller dollar amounts, convenience is a really important element. High dollar amounts, obviously, is more natural kind of expansion for us as well as we continue to grow in both directions.

The -- it ultimately comes down to consumer convenience. We really think about not just modeling the individual transactions, right? We always talk about underwriting each transaction individually. But that transaction is underwritten in the context of that consumer's overall debt load, right? We spend a lot of time looking at what is their monthly outlay in terms of paying us back in terms of all of their debt obligations and making sure that we're managing that along with that individual transaction, how that fits into their debt load.

The important thing when we think about services, when we think about consumers buying something that is recurring with Affirm is, is that an unsustainable path in terms of increased debt load over time that is a ticking time bomb or is this more of a time shift. For example, HOA payments, annual thing. It's a service. It's something that comes up regularly. It totally makes sense to break it up into a monthly payment on a 12-month term.

Breaking it up into a monthly payment on a 36-year -- a 36-month term, if it's going to happen every year, that's just a path right to nowhere. So we really think about making sure that the product actually matches the use case and matches how our underwriting expects to manage users' monthly payments as a part of what are we going to roll out with a specific partner.

James Faucette

No, that makes sense. So let's talk about other catalysts for BNPL share gains. When you are doing your planning and you're thinking about where you can take Affirm, what are the key catalysts that you think about that could accelerate BNPL penetration from here? Is that distribution, whether that be via other wallets or payment service providers? Is it product evolution like the card, better underwriting or merchant funding? What do you think matters most among all the things that you're looking at to help drive growth?

Libor Michalek

I'll say all of the above. I mean, that's the easy answer. And the reason is -- I mean, the reason it is the answer -- I'll go into more detail. But the reason it is the answer is because all these things act as a flywheel with each other. So when we think about improving our distribution across the merchant network, we think about increasing the surface area across which we're available, giving consumers more opportunities to use the product to gain benefits expanding that way.

So from an expansion perspective, we definitely -- I'll leave the international out of it. I mean, it's an important investment area for us, expanding -- continuing to go to other countries beyond the U.K. and Canada. The other opportunities are, A, the card. We continue to invest heavily there, especially as we think of making a product that speaks to specific segments of the consumer base.

Today, product is available to millions of -- millions of users use it, but it is effectively the same product across the entire user base. So we are looking at what that product looks like for different specific credit segments of consumers at different income levels as well as we think about distribution through -- into services. I think this week, as of today, we're rolling out with Intuit. We signed ServiceTitan, things like Lowe's, so we continue to expand there. And then the partnership we've announced with FIS and Fiserv to be able to bring Affirm to debit issuers and so that they can then offer that product to their customers directly through the debit card they already have versus needing to go to someone else.

James Faucette

So we may be able to circle back on some of the distribution. But I think, look, if I look at and talk to investors generally, I think people kind of appreciate the way we started the conversation like, okay, maybe what's different a little bit in the way that you're starting this calendar year, the comparables, some familiarity with how you tend to formulate outlook. You're saying that the environment is boringly stable for consumers, which is really good to hear. But there are definitely more difficult-to-quantify concerns that are floating around in the market right now. And one of them may be agentic commerce.

And talk about where BNPL fits. Like this morning, you had a very interesting announcement in conjunction with Stripe. But I think the general question that we get a lot is, as shopping becomes more agentic and that it -- you think about assistants -- AI assistants comparing options, optimizing checkout, even steering payment choice. Where do you see BNPL fitting? And does it become a default financing layer or merchant funded conversion lever? Just help us think through like how that's -- how you think that sorts itself out.

Libor Michalek

Yes. I mean I'll -- specifically through the Affirm lines, I don't know about what everybody else is thinking or doing. The -- kind of goes back to what is the TAM for this product. I mean it ultimately is a better way for consumers to access credit. They want to pay for something over time. It is the best way to do it. People will always want to be able to pay for something over time because there is greater value to having that couch today than a year from now.

And so one of the things we've always done is, right, no late fees, no revolving, no deferred. It is a what you see is what you get pricing upfront and as a part of the purchase of the item. That's something that resonates with consumers but at times can also be difficult to communicate to consumers. Not every customer gets it. In an agentic world, it's much easier to explain this to an agent, right? This is actually the best way to fit this purchase into this customer's -- into their budget.

And so we think of it as naturally accretive over time because it is a selection bias for the best form of payment, if you need to pay for something over time on credit. And I think that persists because when you think about agentic shopping, I mean, yes, an agent is doing the purchasing, but they are still acting on consumer will. Like the consumer has directed the agent one way or another to get it to the best deal, to get it the fairest financing, to get it the most optimal solution to the problem of having this item tomorrow, and Affirm is the optimal way to do that.

So I think similarly on the merchant side, as long as merchants are going to be -- are going to want to incentivize specific agents that are looking for something to come to them, the best way to do that is through promotional offers, through 0%, through longer term lengths, through enhanced exposure limits, all of that.

James Faucette

Yes. No, it's an interesting point because like one of the things that even I grapple with in my own personal prejudices is that you see a lot of inertia in the behavior of consumers in terms of how they pay for things, right, like just generally. And that's true in the U.S. or any other market around the world. But if agentic has a potential to change that and to push people towards the best solution at any given point, I mean, it means that Affirm's in an interesting position with a lot of opportunity, if it's the best credit opportunity or -- and/or it's the best offer the merchant can make to a consumer.

Libor Michalek

Yes, yes. I mean, I definitely see it as potentially a consumer adoption accelerant for sure.

James Faucette

Right, for sure. I want to take a breath, see if there are any questions in the audience. If you do, just raise your hand. We'll get you a microphone. So one here in the front.

Right here. Bob, you want to raise your hand?

Unknown Analyst

I'll just take a step back through the last few years of Affirm presenting here. You really seem to have separated yourselves from what was a lot of competition. If you were to just pinpoint 1 or 2 things for the nonexperts, what do you think it is that's really, really resonated to get you to this position now?

Libor Michalek

I think at the end of the day, it is delivering value to customers, the consumers, to merchants and focusing on their problems. I mean, yes, we are ultimately a provider of credit to them to enable them to purchase the things that they want, for merchants to be able to sell optimally and to improve conversion within their funnels and so focusing on the customer and making sure we're delivering as much value as possible in credit and in financing.

What that means for many, many, many consumers is not just a very tightly bounded and time offer of credit, but it is actually managing their repayment over months or even years to achieve those goals. And the longer the term length lengthens and the more of their financing that you're managing, the more complicated that problem gets through an underwriting, pricing, optimization problem and being able to manage that through to your capital partners through servicing and through your merchant partners. And so that investment in underwriting and credit and pricing and dynamic optimization and doing the hard things and chipping away at them over the years and making sure that, that translates the value to the customer, whether they be a consumer or a merchant, I think, is ultimately what it's been.

James Faucette

So can I push on that a little bit, if you will, Libor? So one of the things that we see is like you and the rest of the team always focus a lot on underwriting. And one of the differences that we see in your underwriting is the ability, and you talked about like solutions, et cetera. But when I break it down, I see it very concretely that you can deliver longer duration, bigger ticket size underwriting than a lot of the competitors in the space. Like is that a fair assessment of the way, what you're going after? And maybe the next question then is how do you sustain that or is that sustainable?

Libor Michalek

Well, I think to sustain it, part of the thesis of the business from the get-go was that vertical integration matters, right, that you are in control and have visibility into everything from the beginning of the shopping journey, promotions, placements on the merchant site, through the checkout funnel into the purchase into terms, through the servicing, even things like capital, collections, all of it. Your visibility into that full funnel allows you a lot of data that you can then use to underwrite especially on repeat users and as that improves.

Now the sustainability is that these products, both in terms of where they're distributed and how consumers understand them and how consumers use them is an ever-changing problem. It is always evolving, always changing. And so your underwriting and your modeling has to keep pace with those changes. It is a constant reinvestment to be able to deliver on that performance, continue to optimize as the surface area of where you're available, the heterogeneity of it and the heterogeneity of your consumer base is ever evolving. Your underwriting has to continue to evolve with it. And so it's not a point-in-time technology. It is not a point-in-time view of what the product is. It is that process of constant evolution in order to be able to continue to deliver those same results.

James Faucette

Got it. The -- I want to go to another question, and I think this may actually be a bigger question mark among investors right now. And that is the funding market and your balance sheet strategy. I think you guys have been very focused on delivering consistent performance in your underwriting and in the credit book that you're delivering to investors, et cetera, and you have a variety of channels that you can use to fund. But maintaining that consistency has been a priority so that you maintain access to efficient funding sources.

Recently, there's been a lot of chatter on that, the health of the private credit space generally, Wall Street Journal front page article yesterday talking about some of that -- those question marks. That being said, your recent vintages returns have looked really attractive versus benchmarks. But have you seen any change in the spread or return characteristics that your partners are demanding?

Libor Michalek

It actually remains quite great. So we just did an ABS deal in January. It was the best yield, the tightest spread we've had of any of our deals. Our spread was under 100 basis points, so I mean, a fantastic result, well oversubscribed in terms of interest. And we've taken that as just obviously the huge positive that it is.

We also utilize those deals as a way to get to know a larger breadth of potential capital partners where we can deepen our relationship with them through forward flow deals and really looking for just really robust sources of capital. People like CPPIB, the Canadian pension fund, insurance, Prudential, so really looking for stable, robust capital to continue to fund in increments of \$1 billion plus, I think that remains in a really good place.

James Faucette

Yes. I think when you talked about like the committed capital that's on -- that you have in those forward flow agreements on the back of the envelope that you provided versus our own estimates indicated that even just your forward flow agreements would support 20% upside or 20% cushion to our estimates. But how do you measure -- having been through some time with these investors, how do you measure and adapt if they're starting to get a little skittish or trying to adjust a little bit what they're willing to pay?

Libor Michalek

I mean we have a regular cadence. Obviously, we meet with them on a regular basis. We have a cadence of renewals that is kind of ever going with all of them on a staggered basis. And at the end of the day, it's

looking at the performance, if there's any concerns, if there's any questions, being very receptive to them. But I think given the quality of the partners and their robustness, we're not seeing any skittishness. We're seeing, if anything, a flight to quality, which we're benefiting from.

James Faucette

Right, right. And I guess that reinforces this obsession, I would put it, with underwriting and credit performance so that -- and if there are questions or challenging times, that they're willing to come to you, right?

Libor Michalek

And -- that and that there's no surprises, that we're able to tell them where the book is going to be, where the portfolio is going to be 3, 6, 12 months out and have a track record of being able to have those conversations and being able to deliver those results.

James Faucette

So let's talk about -- I want to go back quickly to agentic commerce and probably one of the biggest questions that seems to be flying around. And I know it's super, super early days but is the unit economics. How do you think about what some of the AI labs are charging in terms of transaction fees and what that needs to produce in terms of an incremental conversion for the merchant so that you can maintain your unit economics? Or you -- like just help us think through what that might look like.

Libor Michalek

I see it as -- I mean I think it's very consistent with existing affiliate marketplaces, affiliate relationships, search, obviously, as well. I mean, so I think it fits well within those ecosystems. I think one of the AI labs, what they're charging is actually quite modest relative to what some merchants are willing to pay on an affiliate basis, which ultimately that is.

I think actually that there's room for them as they prove out that this is truly net accretive for them to actually raise prices. But again, I think it's going towards marketing budgets that are already there, paying all of the other affiliate providers, so it becomes one event.

James Faucette

Got it. So I want to talk about other offers. Let's go back to 0 days. You started off the December quarter with that. I think Max's comment was that if it was up to him, he'd do it every month and other people within Affirm are like, wait, let's slow down here and make sure that it maintains impact. Can you just talk a little bit about what the benefit that you saw from 0 days was -- why run that? And kind of what's the right frequency to get the most impact there?

Libor Michalek

That's -- I mean the frequency is one -- and I'm not sure I can tell you what the right frequency is. I think that's something we're going to be testing our way into to find the right frequency. I think the biggest learning that we believed in then wanted to try and we're very positively surprised was that it was net accretive, that it wasn't just a you run this promotion and you're just pulling forward a bunch of volume that would have happened anyway later in the quarter at better economics.

I think that it is net accretive that it's actually a total dollar amount that is increasing, was really positive. It really did -- does show that being able to have those offers for certain consumers is actually the buy or

don't buy decision. It isn't a buy sooner. It's a am I going to buy this thing or am I not going to buy this thing. And so that was the biggest learning. And based on that, we're mostly looking at how to be able to scale it up, how to be able to expand it to a wider range of merchants and promotions and people and think about what is the right cadence.

James Faucette

Yes. I mean I think just something that's disappeared from the retail market over the last 20 years and that you're bringing back, but this interest-based promotion or financing-based promotion can be really powerful, and getting merchants reacclimated and relearning that is important.

Libor Michalek

Yes. I think very much so. I mean it's a mechanism for the merchants. I mean they don't have to -- the merchants that are worried and actually, suppliers that are worried about price integrity, it preserves pricing integrity. And it also becomes very tailored to what actually moves the needle with a very specific consumer because each transaction is being priced individually. Whether it's a 0%, a lower APR, a smaller monthly payment because it's longer terms, greater exposure limits, these are all ways in which merchants can subsidize the risk.

Our job is to figure out which one moves the needle with which -- each specific user, and it shows up in their results. So we get more and more merchants coming to us with promotional offers when -- everything from they're having a challenging quarter to they want to move inventory.

James Faucette

Got it. So let's talk about some of the other products, cards. I know this is something you guys have worked a lot on over the years. Card growth continues to be extremely impressive. How should we think about the next product enhancements you have to reduce friction and drive that next leg of card adoption?

Libor Michalek

Well, I think what we're going to do, one of the things that we are finding with card, I think I mentioned it earlier. I mean it's millions of users, and it's basically a singular product for everybody today. We are seeing that what matters to users, obviously, at different income tiers in terms of when they care about paying, what is the monthly payment versus is there a promotional offer, what is the default terms, what is the -- what kind of -- when do they want to be able to choose, when do they want to be able to just swipe, those are things that are very user specific. And so we're working through how we can deliver a differentiated experience to different consumers based on some of those segmented...

James Faucette

Got it. Yes. No, for sure. And what about wallet relationships? I mean it seems like there's some really good opportunities there. You've got Apple Pay, et cetera. But how does that growth look relative to the card ramp? Are you seeing similar S curves or...

Libor Michalek

Well, they reinforce each other. And so people who onboard into Apple Pay, into Google Pay, into the wallet -- into Affirm through the wallets are getting a card. They're being -- they're part of that ecosystem. What we're really seeing is increasing penetration into offline as a result of it. Both the physical card as

well as the wallet integrations are steadily growing at a higher rate than e-com, the off-line market, which is fantastic.

There's no -- today, you see BNPL penetration of e-com on the order of 8% to 9%. Within offline, it's sub-1%. And there's no reason that the share of card should normalize between those 2. So we really do see offline as an important vector of growth and one that's pretty nascent right now.

James Faucette

And it's also reinforcing, though, right? Like the more you use it offline, more likely you use it online and then is cyclical that way.

So last minute here, you've obviously spoken to a lot of investors, et cetera. What do you think are kind of the top 1 or 2 things where you feel like there's either misperception, overdone concerns or just where you felt like you wanted to correct some misunderstandings?

Libor Michalek

I mean I think there's a lot of concern about consumer. I mean I think that is an important one, that the consumer is right now healthy and doing really well. I think there's a lot of questions about where does agentic go and what is Affirm's role in an agentic world. As I said, I think Affirm's products and way of extending credit will shine in that world.

I think it's important to remember, at the end of the day, the important consumer utility, consumer value that's being delivered, that's where the decision-making ultimately sits. That's where the value is ultimately delivered, and I think it's really important. And that's also why merchants choose the product, is because, to the extent that by reducing a customer's revolving debt load, they have more purchasing power and that accretes to the consumer and to the merchant.

James Faucette

Libor, thank you very much. Really great to have you here at the Morgan Stanley TMT conference.

Libor Michalek

Thank you, James. Really appreciate it. Thank you.