Affirm 2023 Investor Forum Transcript

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Welcome to the 2023 Affirm Investor Forum. My name is Zane Keller and I am Head of Investor Relations at Affirm. Before we begin the presentation, we would like to cover three important disclosure statements.

First, today's presentation may contain predictions, estimates or other information that may be considered forward-looking statements. These forward-looking statements are subject to numerous risks, uncertainties, and assumptions, including those set forth on our filings with the SEC.

Actual results may differ materially from any forward-looking statements that we make today. These forward-looking statements speak only as of today and the company does not assume any obligation or intent to update them except as required by law.

During today's presentation, we will be conducting several panel discussions in which certain guests will participate. All statements made and opinions expressed by the panelists are solely their own and do not necessarily reflect the views of Affirm or its affiliates. You should not treat any such statements or opinions as a recommendation to make a particular investment or follow a particular investment strategy. Neither Affirm nor its affiliates have verified the accuracy or completeness of such statements and opinions.

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With the administrative stuff out of the way, we've got a lot of great content for you today. You'll be hearing first from our CEO, Max Levchin in just a moment. We've got a lot of great presentations from our leadership here as well as two question and answer sessions to get your questions answered. Perhaps most importantly for those of you in attendance physically today, we will have a cocktail reception at the end of the presentation.

To get us started, I would like to invite on stage our Founder and Chief Executive Officer, Max Levchin.

Max Levchin – Founder & Chief Executive Officer

Thank you for joining us.

We're excited to go a little bit deeper into Affirm. What do we do, why it matters, what we plan to do next than the average Thursday afternoon earnings call.

I'll take you through our agenda for the day really quick. Libor will tell you all about scaling Affirm Card. Wayne, our Chief Revenue Officer, will join us to talk about winning a checkout, how we've done it so far and what we plan to do to continue taking the place that is ours. And Pat Suh, our SVP of Revenue will come and tell us about entering new markets, international as well as B2B.

Then I'll come back with a little bit of future navel gazing and a couple of thoughts about what might happen after today and we'll have Q&A session right after my talk.

Brooke will come in to tell us all about our funding strategy and just the extraordinary job our capital team has done literally the last 12 months, and Michael will tie it all together with a really deep dive into financials, charting our fiscal future towards the next big goals.

We'll have special guests along the way. I won't reveal all the secrets just now, but I promise you it'll be fun. We'll try to keep it pacey. We will not stand between you and your cocktail hour any more than we absolutely must, but the content is good.

Before I get off stage and let Libor take over, we mean the mission that we set out to do. We've been at it for ten plus years. Everything we do is connected to it. Nothing is more exciting for me personally than getting positive user feedback.

Those of you who have sometimes stalked me know that Affirm's logo is always on my chest and without fail, someone in any random situation will grab me and say: "Hey, Affirm was great. Thanks for that thing you helped me buy." True story: the man who put this microphone on me 80 seconds ago told me he used us on Amazon. Really loved it. It was great. Thank you. Thank you for a great job with the mic and thank you for being a customer.

The best, in my biased opinion, thing that we've done in the last 10 years is the Affirm Card. It is a focal point of all the things we've set out to do to build a product that really bleeds the mission and improves people's financial lives. It does all the right things at all the right moments and works for every kind of transaction.

I'll stop because I normally can't shut up about it and so as these things go at Affirm, the separation of church and state or God knows what sort of metaphor to use here. Once a product is out of the innovation lab, it gets into the factory floor, and the factory is run by Libor, our President, who's about to come and tell you everything that we've done with the card and what we're going to do next.

Libor Michalek – President of Affirm

Thank you, Max, I appreciate it. I am Libor Michalek, President of Affirm. I get to talk about the card, but it's still Max's baby but I get the pleasure of speaking to it.

One of the things I want to talk about is first how we got here, a little bit of where this product came from, how we're seeing growth within the product, and the expansion that those insights are informing and the long-term opportunity that we see within the product.

The product really started more than a decade ago when Max approached me talking about this idea of building honest financial products that improve people's lives. Rooted in that idea was a product where the interests of the consumer are aligned with the interests of the business. Where, when the consumer does well, we do well. When we get it wrong and the customer doesn't do well, we're sharing those outcomes.

It really, as he was describing it, sounded like a deconstructed credit card. The pieces pulled apart and delivered back to the consumer in a consumer friendly, understandable way in a manner that ultimately delivered on those results.

We started with Affirm at the checkout and point of sale where customers get clear terms ahead of time so that they really understand what it is that they're getting into as a part of the purchase. They know the total cost as a part of the purchase price. There's no late fees or interest; nothing that isn't presented up front isn't done later. So that was the start.

Obviously, consumers loved it. They used it quite a bit and continue to this day and it was really driven from the concept of the customer understanding their purchasing power and merchants distributed because that confidence created conversion for the merchants, it created that additional lift in AOV in volume that they saw. We then took that and moved it to Affirm Anywhere, taking the same product and allowing people to use it outside of the merchant network so that they could then leverage it broadly wherever virtual cards were taken.

Next, we developed the marketplace, which was our app, which really helped the users understand their purchasing power as a beginning of a journey in their purchases and that enabled them to also

understand where and how to use the product. Is it an integrated merchant? Is it non-integrated? Are there any deals? Are there any kind of offers?

That then drove incremental engagement from our customers, and we brought all of that together in the card. All those pieces come together in the card where you still have all those components, but you can use it everywhere and anywhere and for any purchase that you make. And that really came together in a way that customers love this card. They love the flexibility, the flexibility of being able to choose how they want to pay for each of their purchases.

Whether it's an everyday spend and they're going to pay for it now and draw straight from their account. Whether it's a pay later transaction where they're going to split it and they choose terms ahead of time. Whether they've made the purchase and they want to decide that now that they've made it, they should have split it and are going to split it as a result all the way through all those options.

They love it because of its acceptance. They can use this product anywhere that they want. They can use it online, offline. They can use it wherever Visa cards are accepted, and they know that Affirm is there with them.

Most importantly, they really love it because it gets better overtime as they use the product, it gets better and as we develop new functionality within this product construct, we ship it over the air. They get it in their app and next thing in the morning they've got new features on the card that they can access and leverage.

But don't take my word for it. Let's listen to some of our customers tell it in their own words.

[Affirm Card user testimonial video]

Interviewer: What is your favorite card you have? I think you have four cards. You have two credit and two debit. What's your favorite card to use?

Consumer 1: the Affirm debit.

Interviewer: yeah, why is that?

Consumer 1: No hidden fees. Take your time. As long as you make your payments on time, everything's all hunky dory.

Consumer 2: My expectation for the card was really to work better than almost a credit card. Because I like what it does before the card came, so I wanted it to work pretty much the same way. But now it's more convenient way to go in the store and not have to go through all the different things that they make you go through.

Consumer 3: I like that I have an actual card, but I also can just access it right in my wallet, so if I'm online I can just grab it right from the app and if I'm not, then I can have the actual card that they sent. I feel supported by Affirm being able to offer even those smaller purchases or bigger purchases that happen to come up by accident, and you need to deal with something and Affirm is there.

Consumer 1: Well, like I said, you can use Affirm. Also, near me, there's a Kroger so it's like, OK, let's see what they got. Like, maybe get a couple of Tomahawk rib-eyes. Those things are usually about $40 a pop. Get two of those. Some sides. Yeah, it's $100, but I can use my Affirm debit. We can eat good that week.

Consumer 4: It's the convenience of a credit card or a debit card that you can use anywhere, but you have the option of determining a payment plan for your purchase to save you in the long run on interest.

Consumer 5: I use it in between paychecks and then I can just pay it back; but definitely all those gas and groceries. You know, emergency things: like sometimes my son needs Claritin. I'll buy it with that. All with the Affirm card, and then like I said, just pay it back with either monthly payments or pay it back in full, you know when my paycheck does arrive.

Consumer 2: This is like a credit card, without all the issues you would have with, you know, one of those other credit cards.

Consumer 6: You see my wallet? You see what's in front?

Libor Michalek - President of Affirm

I love that they get it. I love that it resonates with them. And the great thing about that is this idea that Max came up with and talked to me about more than a decade ago, that they understand that. This idea of deconstructing and pulling the parts back together creates this really powerful card, and so that love and that understanding is what we're translating into strong demand for the product. That demand continues to be there as we roll out the product.

We're up to 500,000 active users in October. That's where we're at as of now. Also in October, we've reached $100 million in GMV for the month.

And all of that continues with really strong unit economics that are consistent with the rest of our product portfolio. That is really encouraging to see as we continue to roll this product out.

What we're also starting to see is that we're tapping into new areas and new categories in the merchant space as we see customers use the product.

We see it in pay now. This idea of having the ability to use the card in this multimodal way with a pay now component is expanding usage into areas such as groceries and restaurants. And we also see pay later take up in areas that we haven't seen traditionally because of the offline penetration. We see really strong growth in home improvement and wholesale clubs and that is really resonating with customers across a bunch of different categories.

As we continue to grow the product, we're also seeing consistently strong cohort performance. Each cohort as we're layering them into the product portfolio to grow to that 500,000 is showing really consistent performance of trending at $2,500 of usage per year. As those cohorts continue to be layered in as the product improves seasonally adjusted, we see continued improvement in those curves.

We really see customers understanding it, using the product more broadly and delivering really strong results.

As the economics continue to improve, our cumulative contribution from the product is also growing. With each new cohort, it's performing better and better.

Taking all of these insights, we're building on this performance as we focus on three core areas into the next year: growing the user base, increasing frequency, and continued innovation to make the product more sticky.

So first, expanding the user base. Right now, that 500,000 users represent just 3% of our annual active user base. Early still, and so we continue to layer in and distribute the product through messaging and multiple touch points as customers are active in the network to distribute the card and make sure customers are understanding it and continue to onboard. We have a long way to go, and we intend to get there.

We're also bringing point of sale merchant funded offers to the network so that they benefit that customers see in our point-of-sale network 0% offers, extended limits, and reduced APRs that those

same benefits are in the card. We're working with merchant partners to bring those into the ecosystem.

Next, we're looking at increasing frequency through everyday incentives that customers can benefit from as they use the product more frequently for everyday purchases, so including perks, rewards, starting to layer those in as what is available to a customer who is using the product on a regular basis. We're also expanding checkout options, which includes new categories, making sure the product, as customers use it across these categories, is really working for them well and that those categories fit and so category expansion.

The cart sizes that we work with both on the high end and the low and making sure that how customers are using this product is actually working for them for those purchase sizes and creating more options, pay in six, pay in two. Introducing these options as a way to ensure that we're matching customers' cash flow based on the term lengths we're providing.

Next on innovation, we're announcing the launch of Affirm Account which is a transactional account with savings APY. Like any transactional account, it has an ATM access, direct deposit, all the things that you would expect with savings APY, and it creates a tighter experience with the Affirm Card. With the Affirm Card, you have a much cleaner experience especially with Pay Now.

Where you're at with your repayments and what you have available to spend it results in the customer being able to have higher pay now limits in the ecosystem.

But don't take my word for it. Right after this, out in the hall, we're going to have the team put together demos and they're really, really cool. It's much better to see it than listen to me talk about it. I encourage everyone to go check it out when you can because it's a really slick view into what's being done.

As far as innovations, of course we continue to innovate on all the financial capabilities within the card to make sure that those capabilities really resonate and continue to add to the card product, and what customers need to be able to manage their cash flow and really understand how the product is working for them and how to match their spend to their income.

Taking all of these components and putting it together, we think about the long-term expansion of the card to go beyond the immediate user base. We obviously have 500 thousand users and we have 40 million registered users. We have 16 million annual active users, and we have a lot of room within our own ecosystem.

But really, we're going after the full card market. There is over a trillion dollars in revolving consumer debt in this country, and there's no reason for any of it to exist. There's no reason for customers to be revolving and paying forever for purchases that they just layer into their credit card. Surprise, right? And these are not planned revolving. They're accidental things that have happened to customers due to the circumstances of their lives.

We believe that all of that can be handled through Affirm card and individual discrete repayment for purchases where individual loans are matched individual purchases and so that is the market that we are going after.

As we think about the future and going after that large market, we think about the progression that we've seen functionality as we introduce it drives increases in network reach.

Those then drive frequency and ultimately see that the product has progressed through this curve to checkout to anywhere to card with the account and beyond that we see a greater share of each individual consumer spend coming to Affirm because the product is better.

Speaking of network reach, I will now hand it over to Wayne, who's going to tell you all about what we're doing on the network. Wayne?

Wayne Pommen - Chief Revenue Officer

You've just heard from Libor about our consumer strategy and what we're bringing to our users with the card. This section is going to be all about our merchant network and in our last fiscal year, 87% of our GMV came through our merchant and partner integrations and those integrations are also the biggest source of new users for us.

Our consumer strategy is built on the foundation of the merchant network that we've been building over the years, and this is why we're laser focused on continuing to win at checkout. There's three main pieces to our checkout strategy, which I'll take you through:

First, we're always unlocking new merchants and new segments of the market.

Second, once we have merchants on the platform, we're looking to grow our impact for them and grow our share of cart over time.

And third, we use partnerships to accelerate our distribution, especially into the long tail of the market. I'm going to take you through each of these strategies in turn.

In unlocking new merchants and segments in the last 12 months, we signed up over 21,000 new merchants.

But let's start from the beginning. Why do merchants choose Affirm? They have a choice of providers. Why do we have the market share that we have and why are we able to keep signing up merchants at such a rapid pace? Well, there's a few reasons for it, and as Chief Revenue Officer in my travels, I'm out talking to merchants all the time. I see this first hand. First of all, it's the size and profile of our consumer network, so we've got over 40 million registered users. If you're a retailer that's constantly looking to acquire and engage users, that's a powerful network to tap into.

It's also the size and quality of our existing merchant network. We're live on retailers that represent 60% of e-commerce in the United States. So almost by definition that means we're working with the biggest, most sophisticated, most discerning names in the industry, and it means we've had to face up to the most demanding technical challenges to support those merchants.

It's also our brand. We have the highest aided awareness in our industry and directly connected to that is it's the mission and the values underlying the product. As I'm sure you've heard us say many times, we've never charged a dollar of late fees, a dollar of compounding interest, or a dollar of deferred interest. We're the only one of our competitors that can say that, and merchants understand this. Merchants today don't want to put a financial product in front of their customers that's going to leave them with a bad experience.

But I think the most important reason why merchants choose us and stay with us is that the product performs. I'll give you a few stats here. We survey our customers regularly and we know that 76% of our users would have either delayed their purchase or not completed their purchase had Affirm not been available at checkout. We know that merchants see much higher average order values when Affirm is present because we're giving customers spending power on clear, friendly, easy to understand terms right when and where they need it. Our product converts, we have head-to-head tests showing that we have 28 percent fewer abandoned carts than the next competitor.

Ultimately, 91% of our loan transactions are from repeat customers, customers that have used the product, liked it and are coming back again and again within our merchant network. So again, if you're a retailer that's looking to acquire customers, drive conversion, drive funnel performance, these advantages add up very quickly.

Merchants want what we've got and we're signing them up to our platform at a rapid pace. But where do we stand in that market? Where are we in terms of market penetration? What's the opportunity that's ahead of us?

Well, as you would know, last fiscal we generated about $20 billion in GMV. That's inside of a roughly $1 trillion ecommerce market in US retail, which is inside of a $7 trillion overall retail market when you include in store. E-commerce has been our bread and butter over these past years. Let's, let's double click on that a little bit.

We estimate that there are about 3.5 million individual e-commerce businesses in the United States, ranging from very large down to very, very small, and we're partnered with a little under 10% of those.

If we then look at it on an addressable sales basis, we estimate we're going after about a $900 billion addressable sales market. The reason that it's not a trillion is there are certain categories that we don't participate in. If we look at the $900 billion, the partners that we are working with generate about or cover about 60% of that.

When we step back and look at this, we see a lot of room for additional penetration, especially outside the top 50 and also a lot of room for penetration in those merchants' share of spend, share of cart, which I'm going to talk more about in a second.

As I said, we signed up 21, 000 merchants in the last 12 months. Here are some of the notable names that you may recognize spanning fashion, electronics, general merchandise and also travel, which is another historical core market for us alongside e-commerce. As we go about this, we're also making sure we're maximizing the opportunities within those core markets.

So low AOV, for example; historically, Affirm was a bit more focused on larger purchases. But we know that 80% of e-commerce transactions in the US are below $150, so that's an opportunity we don't want to neglect.

We're leaning more into addressing third party marketplaces, which are the fastest growing segment of e-commerce in the US and also very importantly side by side opportunities. So just because a merchant has already partnered with one of our competitors doesn't mean that that opportunity is close to us forever. Actually, those can be very valuable opportunities for us as well, and just in the past few months, Shein and Temu are examples of where we're live side by side with another provider and seeing excellent performance.

So everything I've just spoken about so far is in our core markets of e-commerce and travel, which is in the blue here.

When we zoom out and think about where the U.S. consumer is spending money, there are trillions of dollars more of consumer spending where our product has applicability. You already heard Libor talk about how some customers are voting with their feet with the card and using it in categories that have not been a historical focus for us. We're also going to be going after these on the merchant side and we've already made inroads into segments like healthcare for example. We won't get to all of it overnight, but when I think about our runway to keep penetrating U.S. consumer spending and building the network, I get very excited.

So that's on the merchant penetration side. Now let's talk about growing our share of cart.

When we sign up and onboard a merchant, that's just the beginning of the story; the beginning of our opportunity to expand our impact with those merchants. We have quite an extensive playbook that we've built over time to continue building our impact by rolling out features and enhancements after the initial launch. I'll give you some examples:

Our pre-qualification feature is all about showing customers what their spending power is with the firm before they get to check out and that gives customers the confidence to convert and where appropriate to build their basket.

Adaptive checkout is a product we launched a couple of years ago, which gives customers a choice of installment plans, of financing plans that they can decide what is right for that purchase they're making and for their budget and for their cash flow that also drives conversion for retailers.

Financing plan customization includes very important things like 0% APR promotions and longer loan terms that might better suit the purchase price of the product. Together these are very, very powerful tools for merchants to use that we have in our toolkit.

Related to that is brand sponsored promotions. We're spending more and more time facilitating underlying brands or vendors or manufacturers to be the ones to fund those zero percent offers at retailers and performance.

So, these are four examples, among many others. These strategies are often developed in partnership with our biggest and most important partners, and then when we see what works, we roll it out more widely to the merchant base.

Let's look at some more examples of this in action. What we've done on this chart is aggregated a number of our travel partners and tracked our share of cart in terms of our percentage of their sales that we are covering from the first quarter of launch through to the 13th quarter. What you can see is that over those thirteen quarters, we've steadily and dramatically increased our share of that merchant spending. So again, that's as we roll out things like 0% APR campaigns and optimizing the financing plans.

We've also had great success starting in one category with a merchant and expanding it over time. So, in travel, let's imagine that we start with flights, then we'll add car rentals, vacations, hotels and so on and keep expanding the amount of that merchant’s business that we're covering. Channels as well: we might initially launch on the web, but then later on we can be added to an app or telesales channel.

We've done a similar analysis with some of our largest general merchandise retailers and the pattern, and the tactics are very much the same.

When we put all this together, when we add our share of cart playbook to our track record of retaining those merchant relationships over time, what we end up with is a very strong net expansion rate, which sat at 115% in the quarter that we just reported.

Then if we zoom out and think about the historical annual cohorts of merchants that we've acquired and track their growth over time, we're driving very strong compound annual growth rates in each of those cohorts.

The last pillar I'm going to talk about is accelerating distribution. So, you saw a minute ago how many merchants there are in that long tail outside of the top 50 merchants that we have still to penetrate.

The question for us is, how do we do that quickly and efficiently and a big part of the answer is through partnerships. Our partnerships fall into broadly three categories:

First, e-commerce platforms. Most small merchants are using a third party e-commerce platform to run their site, and we can be added easily as a payment method within those platforms. It makes it easy for merchants to take advantage of what we have, and so we currently have 75 e-commerce platform partnerships, which collectively cover hundreds of thousands of merchants.

The next main partnership category is payment service providers. These are increasingly important platform partners for us as retailers look to have all of their payment methods packaged up through a single provider. We have 14 PSP partnerships today and we're putting more and more effort behind that channel.

The third leg of our distribution partnership strategy is getting integrated into wallets and also browser extensions, which is another means of allowing customers to check out with us.

So again, let's take a couple of examples.

BigCommerce is an example of an e-commerce platform where we've been partnered since 2016. We've driven strong growth in active merchants and GMV in that time. And we took a big step forward in the partnership last year when we became the preferred provider on the platform. We've been working more and more closely with the big commerce team to streamline merchant onboarding and make it faster and easier for merchants to adopt Affirm.

On the PSP side, we're very excited about our Stripe partnership. We've only been live for about a year and a half, but we've got rapid and accelerating adoption and GMV growth and we've already expanded the partnership from the US to Canada.

The last partnership case study I mentioned is a wallet case study and this is one of the partnerships we are most proud of at Affirm. This is Shop Pay Installments, which is a powerful offering we built with Shopify inside of Shop Pay. So, we launched this in June of 2021 and since then the program has grown and grown as we've been working hand in hand with the Shopify team to keep developing the program and rolling out new features.

When it first launched in June of 2021, it was a Pay in Four only product. A year later, we launched Adaptive Checkout, which I spoke about giving customers the choice of plans to drive additional conversion. In December of 2022, we launched marketing tools to allow retailers to feature installments throughout the customer journey.

Then just this year we launched in store installments and also made it really easy for merchants to offer things like 0% promos at will through the Shopify platform. This is just a sampling of a non-exhaustive list of the things we've done together with Shopify and we're not stopping here. We have a really robust road map to keep growing this partnership.

For our next segment, we're very lucky to have with us Kaz Nejatian, who's the VP of Product and COO of Shopify. He's here and he's going to sit down with Max to talk about this partnership in more detail.

[Shopify fireside chat]

Max Levchin – Founder & Chief Executive Officer

All right. Guys, everybody please, please give our one of our finest friends, shareholders, and collaborators a warm welcome. Thank you.

As I think our friendship predates the collaboration, but the relationship is deepened as we build some cool things together. So, let's start at the beginning.

Why did you pick Affirm? You had your choices. You know how to build code.

Kaz Nejatian – VP of Product and COO of Shopify

Yeah, we had actually started down this path of building a competitive product ourselves. As we got deeper and deeper into it, you realized like three things:

One, first of all, it is insanely difficult engineering to do this well. To do this at scale, with performance, without losing your shirt, is just insanely difficult engineering. Which at first you know, it didn't appear to us that way. But it is weird, like in order to build this you have to have as many engineers as Affirm has, just to build it for ourselves, which is not an investment that we were looking forward to making.

Second underwriting just tends to be a large-scale problem. While we have more scale than most people, obviously Affirm is the best company in the world at underwriting consumers.

Third, it just became about: what do you want to work on any given day? We wanted to spend it on commerce for our merchants, rather than building consumer lending products.

We also just launched way faster, way better, and are on a great part of perpetually improving the product without having to always invest in it.

Max Levchin – Founder & Chief Executive Officer

I agree. I agree with everything (audience laughter).

We did point out in the last earnings call that volume growth on Shopify has accelerated for the third quarter in a row. It's not through any kind of juicing, just people need more Shop Pay Installments. So, what has been your favorite thing in the history of the relationship so far?

Kaz Nejatian – VP of Product and COO of Shopify

We have a partnership. Most companies end up having partnerships with other companies just to get parts of what they need. But the Affirm and Shopify partnership is a special one. I frequently get on calls and I don't know who is from which company. I can't quite tell who is on our team, who is on Affirm's team, and I remember, like I think it was a week before we were launching, we had to onboard 900 thousand merchants in one day, basically.

Which is, you know, is more merchants than every other lending company combined had like times probably 7.

We're like, hey, we have this problem. And I remember the thing that you guys did, which is still my favorite thing any partner has ever done: the entire Affirm team started reviewing merchants for a few days and a weekend, and it all got done. Which is like not a thing. Honestly, Affirm is a core part of Shopify's infrastructure at this point and it's hard to imagine the product without Affirm.

Max Levchin – Founder & Chief Executive Officer

For those of you who don't exactly know what this was: true story, we had to onboard almost 1 million merchants. The fastest way to review it for policy violations and underwriting signals, because we still hadn't at the time fully automated it, was to recruit the entire company and two thousand people took shifts manually looking at the merchants. It was called Shopapalooza. If you reviewed at least 300 merchants you got a T-shirt, and if you did more than that, you got a bottle.

I have a bottle and the T-shirt. Some people started building tools. We used some clever machine learning to speed it up, but the whole thing was done in six and a half days or so. It was unbelievable.

So, back to business. Shop Pay is, you said it yourself, the best converting checkout on the internet. Where does it go from here, and where does Shop Pay Installments fit into it?

Kaz Nejatian – VP of Product and COO of Shopify

Our job is to help merchants have down funnel conversion. It's key for direct to consumer, it doesn't work without it.

Shopify's checkout is the best performing checkout on the Internet. Don't take my word for it. The top three consulting firms, for some reason I'm not allowed to name them, did a study and found that ours performed 15% better on average and 36% better than one of the other enterprise solutions. So, it's meaningful. A good chunk of that is because Shop Pay Installments is so good at converting.

You want to offer buyers choices. But what you don't want to do is have a buyer reach the last step of checkout and get that spinning wheel of death. Which happens with almost every other solution.

The way that Affirm is able to prequalify buyers, put buyers through a funnel, offer adaptive checkout, offer the same product both online and in store, and follow the consumer along the journey makes this product…well, it's not like every other product. Comparing it to every other product is like comparing a Tesla to a horse.

Max Levchin – Founder & Chief Executive Officer

It's a good line. Speaking of competitive products, we have a preferred relationship, but you didn't exactly turn the switch off. The rest of the Pay in 4 and other providers are still available on Shopify.

But without revealing any proprietary or confidential information, it's pretty clear that even without thumbing the scale, Shop Pay Installments is gaining share very rapidly. Why do you think that is? Obviously, it helps to be directly integrated, but I think there are deeper reasons.

Kaz Nejatian – VP of Product and COO of Shopify

I think Shop Pay Installments is the single largest installment provider. The reason merchants have overwhelmingly adopted Shop Pay Installments is it integrates so deeply into their day-to-day flows that it's not another thing they have to do. Yet another thing they have to manage.

Their money lands at the same time. Accounting works the same way. Order fulfillment works the same way. They don't have to have competing systems and back offices. The buyer’s side is really obvious. It's very obvious on the buyer's side why Shop Pay Installments is the best installment product. That purple button is a purple button everyone loves.

But if you're not a merchant, you don't appreciate how much there is on the merchant side. To not only increase conversion, but just day-to-day run their business, and I think that has been a large part of it.

Max Levchin – Founder & Chief Executive Officer

That's certainly our take as well.

We have worked very hard to bring everything from the basics like the dashboard, the reconciliation, and basic accounting features directly into the Shopify merchant dashboard. Also, one of the not-so-secret reasons for our growth is that we've consistently delivered financing program after financing program. This is what we call internally various products that we give merchants to help them convert. So, pay in four is where we started. Then we went on to have pay in six, and then pay in six months, and on and on.

As we bring these products directly into the Shopify integration, I think that's the part where it really begins to shine. You don't have to learn a different back end and it's pretty powerful. So that's definitely true for tiny merchants that don't have the time, it's a sole prop with only one or two people, but why do you think the really big guys adopt Shop Pay and Shop Pay Installments.

Kaz Nejatian – VP of Product and COO of Shopify

This has become a thing that we have jointly done. Shopify is well known for being where everyone starts. What is less well known, but is objectively true, is that Shopify is 10% of U.S. e-commerce. We have very, very large brands on Shopify, and more and more large brands are coming to Shopify.

CMOs just see conversion, right? CMOs see down funnel conversion of Shop Pay Installments versus alternatives, and they frequently run them side by side to figure out which one works best.

My mom is a Shopify merchant. My mom's intuition just happens to match the data science team of a large enterprise company. The thing that works tends to work. So even when we go on long A/B tests, it just tends to be the fact that Shopify helps.

I also think that like relatively transparency with our roadmap with our merchants, that we're going to work with Affirm on cross-border and international. They believe that this is the bet on the future. Being on Shop Pay Installments is a bet on the future, and a bet that you'll never be off the beaten path or have to uninstall something.

Max Levchin – Founder & Chief Executive Officer

Good glimpse into the future.

Speaking of the future and going international and new markets, thank you, Kaz. I think my job is to invite Pat on stage to tell us about the next set of big markets.

Zane Keller – Head of Investor Relations

Great. Thank you, Kaz. We appreciate you taking the time to join us today. I would like to invite on stage Pat Suh to describe our plan to enter new markets.

Pat Suh – SVP of Revenue

Thank you, Zane, and good afternoon.

My name is Pat Suh. I am the Senior Vice President for Revenue at Affirm. I have been at Affirm for almost nine years. And I have to say, I have never been more excited about what we're doing here at Affirm. You heard Libor and Wayne talk about what we're doing on both the consumer side as well as the merchant side. I'm here to talk about where we're taking our value proposition and scaling that into new markets. So very excited to talk to you about that today.

I'm going to talk about two opportunities:

Number one, international and our disciplined approach to approaching these markets. Number two, B2B and how we're taking our offering to the business to business buyer and extending our TAM.

Let's talk about international first. Obviously, going international is a large opportunity. Sixty percent of e-commerce, if we exclude China, takes place outside of the U.S. For us, that represents close to $1.5 trillion in opportunity near term, and then we're already working with a number of U.S. and Canadian multinational companies today.

Why are we seeing this demand? We're seeing this demand come from both sides: merchants, our consumers, and also our platform partners. We're getting these questions across a few different dimensions.

Number one, they recognize that honest financing for consumers is a global demand that has universal appeal, and they're asking for us to expand that.

Two, they know they want to offer a wealth of offerings. They want more than just pay in four and they're looking for a financial provider that can do that.

Three, they know we can execute. We've worked with them, and with many of these partners for over a decade, to grow their business and they know we can execute. We have been able to reliably and quickly deploy solutions with them and they see our teams as extensions of their own teams.

And then lastly, as you just heard from Max and Kaz, when we can partner together, when we can work together, understand each other's businesses, they know that we can deliver more value.

With all this, I do want to talk about the disciplined approach since you all are investors that we take into entering new markets:

First, we look at total opportunity and addressable market.

Second, we look at market share. If we look at the presence of our existing merchants and partners within different regions that allows us to de risk our expansion and accelerate our time to market.

Third, we look at unit economics. We want to make sure that there's a reasonable mix of profitable products as we enter these markets and that there is an appetite for them. We also consider speed of execution, product integration requirements, and other factors.

So, I wanted to walk you through a quick example. Canada is an excellent example of how we expanded both with a partner and scaled for growth. Back in 2019, we launched with Peloton Canada. Peloton asked us to move into Canada and extend the 0% program that we had worked on with them in the U.S. That was very successful, so we mobilized our teams to launch this before the holiday season.

In 2019, we expanded over the next several quarters. We saw expansion into the various provinces and territories. Then in 2021, we decided to accelerate our growth within Canada. We saw traction in the market and we acquired PayBright, who was a leading financial service provider at the time.

Shortly thereafter in the second half of 2021, we launched with a major consumer retailer. In 2022, we then launched with a major enterprise retailer. Finally, just this past year in the first half, we completed our tech platform integration so that everyone is on a single platform and we are ready for the next stage of scale.

As we look beyond Canada, our largest partners already have significant market share outside of the U.S. that we think will really serve us well. When we look at our top client relationships, again leveraging that playbook that we look at, we see that our largest merchant partnerships have 20 to 38% market share in Europe. This regional market share is our opportunity to rapidly expand with those partners and leverage the pre-existing relationships that we have.

Based on these factors, Max announced our entry into the UK. When we look at our playbook, again, we look at these factors:

TAM: $133 billion TAM for the UK.

Penetration of existing partners: we see 20% penetration in the UK. There's proven customer demand and really an opportunity to go beyond pay in four.

Overall, when we look at the unit economics, the demand within those markets, we think the UK is such an attractive market. Even the Brits love honest financing programs without late fees and gotchas.

We have continued our UK expansion. We have hired a seasoned team, a country manager, and have the licenses. We've been having active conversations with a number of partners, and we're very excited about announcing some news in the UK markets.

Now for B2B. Before I get into it, you know the demand I'm seeing in the B2B space is very exciting. I haven't seen this type of traction since my early days at Affirm back in 2015. This is a very exciting time to kind of be in this space.

We have an immediate opportunity within the sole prop B2B market. Let me back up and talk about what B2B means. First, we’re focusing on the SMB financing market, and this is business buyers buying on behalf of their companies. This can be anything from laptops to toilet paper, and we already know that this is a large, $700 billion market. Now when we focus on the sole prop space, that's already still a very large market. There are over 28 million sole props in the US alone.

When we think about the near-term opportunity of taking this sole prop market, expanding that further into what we think is the addressable SMB financing market, which existing credit offerings we think Affirm solutions can fulfill. Then, when we look further, we see an even broader B2B channel.

So why do we have a right to play?

I think the stat is just very important. 69% of sole props that are less than two years old are declined for financing. I think that's really powerful because that presents just a real opportunity for Affirm.

As you know, we have worked for over a decade on our underwriting technology. We are best in class and we have improved our technologies around fraud, checkout, and obviously our brand recognition. So, we believe that we can address this dire need within the B2B space and sole prop specifically.

In addition to the approval rates, it's sort of exacerbated by the pain points that both buyers and sellers have.

Buyers on one hand, in addition to not being approved for financing, they just have limited options to acquire that financing. It takes some time to get, if you've ever applied for an SBA loan, those things do take time. And obviously, during certain seasonal periods, buyers have cash capacity constraints.

Then for the seller, there are poor credit options.

The sellers have seen us, have seen how Affirm has been able to unlock growth in both conversion and average order value, and they want that for their business buyer as well.

Now to talk about a case study. Amazon, you saw that announcement about two weeks ago. They launched with us on November 2nd. They felt the same sort of pain points where they had millions of sole proprietors not being approved for credit. We launched a pilot with them in early 2023 where we tested out the conversion. We saw extremely strong demand from our sole proprietorships.

Finally, you know we saw this as a great opportunity to extend the partnership and leverage our network of 40 million registered users to enhance the sole proprietorship offering.

If we look at the addressable market and TAM for the SMB financing market, we actually see that 1/3 of that market is covered by our existing merchant partners today. I think that's very powerful as we look to expand into the sole prop business over the next year, and then we're tackling these initial industries that we think we have applicability.

Now, I am very pleased to announce that our second B2B partner is Best Buy for Business, and I'm thrilled to have Jai Holtz, who's the VP of Financial Services for Best Buy, here today, to join me. And I'll be chatting with him about how Best Buy is using Affirm for the sole prop buyer. Please welcome Jai Holtz to the stage.

Pat Suh – SVP of Revenue

Jai, thank you for joining us. For the sake of the audience, maybe you can start with an introduction and a little bit about your background, Jai.

Jai Holtz – VP of Financial Services for Best Buy

I lead the financial services business at Best Buy, which is both consumer and business. Prior to that, I have spent 20 years with other retailers supporting their financial services business. Most of that time was at Sears, but I have also been at a couple of fintechs.

Pat Suh – SVP of Revenue

Can you describe Best Buy for business? Some of the folks here in the room may be familiar with it, but maybe you can talk a little bit about the service you're providing?

Jai Holtz – VP of Financial Services for Best Buy

Yeah, so much like our consumers, there are millions of consumers out there that think about Best Buy first when it comes to electronics and appliances. And not surprising, so do businesses. The first thing that they think of when they're trying to outfit themselves is Best Buy.

We have a huge breadth of customers that use Best Buy for Business. Anywhere from large hospitality chains that are outfitting every single one of their new rooms with a big screen TV, to home builders that are looking for packages for their home buyers, and then those small companies that need a handful of laptops to outfit the space that they're using.

Pat Suh – SVP of Revenue

That's great. I know that there's a lot of physical goods. I know some you had mentioned at one point maybe even some services might be involved?

Jai Holtz – VP of Financial Services for Best Buy

When we think about it, what you're seeing is demand not only for the product, but really the service that Best Buy can provide with our Geek Squad. Customers are looking for us to come in, hook everything up, wire everything. So really, we can do it from soup to nuts.

Pat Suh – SVP of Revenue

Let's turn a little bit, towards sole proprietorships within the business. Is that an important segment for Best Buy?

Jai Holtz – VP of Financial Services for Best Buy

You know, about two years ago we added the Best Buy for Business credit application online. It's really opened a brand new set of customers for us. What we're seeing now is thousands of applications every single month that are coming in. If you think about the customer that is going online to Best Buy for Business to apply, it isn't large corporations. We have sales teams that support those folks.

It really is the smaller companies, think of the sole proprietorships, the LLCs, the companies that have 100 or less individuals working for them are the ones that are really coming online and applying with us.

Pat Suh – SVP of Revenue

What sort of financing options are available to these with sole props and businesses?

Jai Holtz – VP of Financial Services for Best Buy

It has been a struggle for retailers for many years. We can finance a large corporation with no problem, right? There are more than enough lenders willing to do that.

Then comes sole proprietorships. They are just an underserved market. If they don't get a financing opportunity with us, they're going somewhere else to get it at a much higher expense, with much less convenience.

That's a big pain point in terms of them being able to apply and get financing correct. It is and not only a pain point from you know, can they get approved, but it's a pain point from the experience.

You know if you go to these big lenders, they look at these folks and want all these their financials and so forth and the experience becomes very poor for them. It becomes a lot of work to come in and buy 5,6,7 laptops, right? So how do we make that experience better?

Pat Suh – SVP of Revenue

Are those the pain points that Affirm is addressing?

Jai Holtz – VP of Financial Services for Best Buy

You know and as we look at it, and it's going to be a growth you know over years, but we know the experience that Affirm provides which is top of his class and so we're looking now to add that to the business side.

Pat Suh – SVP of Revenue

Ok, great. Now, what percentage of Best Buy for business customers are financing their purchases today?

Jai Holtz – VP of Financial Services for Best Buy

Yeah, we don't exactly provide those exact numbers, but what I can tell you is the majority of our Best Buy for business transactions are financed. As you can imagine, the last 3-4 years with the pandemic and now with some of the economic stress, that percentage has only increased, so you're not only seeing consumers need more support financing, but you're starting to see these businesses, the small ones, need that support from us.

Pat Suh – SVP of Revenue

Now when you looked at providers here, did you see any other providers being able to scale or handle the types of pain points that we're talking about?

Jai Holtz – VP of Financial Services for Best Buy

I've been trying to find the right partners for 20 years. Today, I don't believe that person exists for us to be able to take care of these customers from a national standpoint. That is really why we will be launching soon with Affirm to be able to hopefully overcome these challenges that have plagued the industry for years.

Pat Suh – SVP of Revenue

That's great. What other expansion opportunities do you see between Best Buy and Affirm?

Jai Holtz – VP of Financial Services for Best Buy

Yeah, I think this is where I'm most excited truly. You know, right now we're announcing and we're taking care of the sole proprietorship, but you guys have much bigger plans.

How do we take care of that small business that just isn't being taken care of today, whether it's a sole proprietor, whether it's an LLC, whether it's just a small corporation that doesn't have that financing? The depth of credit file that they need, how do we grow into those customers as we continue to grow into our partnership?

Pat Suh – SVP of Revenue

Thank you so much for your participation here. We appreciate your time and thank you for coming from Minneapolis today. And thank you everyone. Thank you. Let's get to a round of applause.

Zane Keller – Head of Investor Relations

Great. I would like to invite Max back on stage to discuss and describe the future of Affirm.

Max Levchin – Founder & Chief Executive Officer

Here I am. So now for some visioneering.

We'll go through who we are, how we got here; hopefully you know who we are, but just for some setting of the mood. More importantly, what are we trying to do next? I imagine that's on some people's minds and the path to the next big milestones, the financial kind that Michael will reveal soon after me.

I say this a lot, but I mean it every time. We have this giant payments network. We built it over a decade, did a lot of hard work, every single way to quote myself from our S-1. We had money and morality firmly in mind, and it's important we differentiate ourselves through treating both sides of the network right, the consumers and the merchants. We're getting dangerously close to ubiquity. I'm not sure it was in the S-1 or in some of the talk tracks, but I promised that at about 20 million active users it becomes very hard, or at least very stupid, not to accept Affirm. So, as you can tell, we're getting pretty close.

Our moats are well known. We are product innovators. I'll talk a little bit about some of our product ideas. We are underwriters par excellence. This morning, a not to be named issuer of credit announced their next round of delinquency increase both year on year and sequentially, while we've been maintaining our numbers exactly to the targets we've set.

Technical excellence. You heard it from Kaz and I think if Toby, my fellow engineer, were here he'd say the number one reason we won is we both code. We did build the kind of trust that allowed us to invite or get invited by the largest e-commerce players in North America. That's only the start of what I think will be the most valuable payment network in the world.

What made us unique? The word unique on the page stands for the one decision we made in the very beginning. I've always wanted to set out to build a payment network. But unlike the last one that I built, where we didn't go below the rails, I wanted to actually manage risk on the assumption, or on the conviction, that by taking, managing, and pricing the risk, you could do more for both sides of the network and you could seek out real differentiation and your own space under the sun. And it worked. We get information on both the transactors and the items being transacted.

You heard Wayne talk about Adaptive Checkout. It really is awesome. As the story goes, it's basically the ultimate conversion machine that allows you as a merchant to put forth a collection of deeply personalized offers compelling the consumer to transact, easing their concern about affordability, or giving them something that fits directly into their cash flow. Every transaction becomes a personalized offer. Before Affirm, that meant either doing discounting, which is a one-size-fits-all margin destroyer, or even worse going for things like fake free offers and other gimmicks that obviously we would never do. That is why merchants come to us. We help them sell more. It's pretty simple, but it is really effective.

For consumers, we stand for transparency and confidence. These are real snaps of consumer reviews. We have millions and millions of consumer reviews. I get a randomly sampled one every 15 minutes. It's mostly dopamine. On occasion, it's sort of a thing to dive deep into to figure out what went wrong. If you can't read what they say, you can tell by the emojis. Most of the time they really love us. I looked up iOS ratings right before I got on stage. It's 4.9 after 1.4 million reviews. We're well reviewed and we're still well loved by our consumers.

The thing that may be a little bit below the surface is that the brand scales. If you are taking your Hamptons third bedroom and turning it into a gym, we will help you finance the bike, or the rower, or the treadmill. If you're living paycheck to paycheck and shopping at Walmart, we're there for you too. The brand is universal. It actually spans the entirety of the credit spectrum and scale of wealth.

Our products adhere to universal values, simplicity, boldness, and honesty, and that seems to work. Or at least that's what these reviews say. We're also, last I checked, the highest rated payment type on Amazon, where they rate everything, including payment types.

As our network grows, our moats get deeper. We get more data, we underwrite more transactions, we meet more people. You've seen the size of the user file that we have underwritten in Wayne's presentation.

Network expansion is fueled by signing up with new merchants, but also by making new connections in the network. For example, going offline like we did with the card.

When we introduced the card at an event, pretty similar to this one two years ago, we call it the great unbundling of the credit card. At the time, that was shorthand for conviction that you can buy expensive things, in this very new format, which of course is a very old format but long superseded by theoretically a better way of piling it all onto one big debt, revolving in it for a very long time, and paying interest. Instead, we said, you know what, we're going to undo the whole thing.

Card took a while to come to full fruition, but it is here now. It's compounding at double-digit month to month and shows no sign of slowing down. I take this to be the beginnings of an existence proof that we were right in our assumptions.

When we launched the card, we sort of said it: we want to be there for every transaction, and with every passing earnings call we said it a little bit louder, and a little bit louder.

We think that we can make every purchase better, not just the considered ones, not only the giant ones. So, quick stats: 80% of all transactions in the US are under $70, and the average card swipe is $60. You would think that is a solved problem. It's super easy. This happens all the time. Go downstairs, buy yourself a cup of coffee. Should be extremely, extremely optimized; and yet it's not.

You have two choices: you have debit, which gives you no grace period, no insufficient funds protection, and if you're not careful, you're going to end up with a $30 maximum NSF fee for trying to buy a salted pretzel. On the other hand, you have credit. If you live in New York and get paid a Wall Street salary, you think of it as ‘debit, credit, who cares?’ At the end of the month, all I need to do to pay off my bill. But, for most people in the country, you're not starting the month with a $0 balance, you're coming in revolving already. And you're about to pay interest on a $5 pretzel if you're a tourist hanging out in Times Square buying yourself a snack.

I think neither of the two things are good or optimal or liked by consumers. I'm not aware of any payments brand that has the sort of consumer love that we have, and I think that gives us a license to reinvent all these transactions and make them better. I don't think you should pay $30 for a $5 transaction, that's for sure. So we're going to unbundle all payments, not just the considered ones.

We're not going to be constrained by Pay in 4 or pay on a monthly schedule. Those are constructs that were invented, but we're not going to be held to them. You'll see some interesting changes there. The reason we think we can do all of this…the standard rebuttal is: ‘well, it's complicated. Swipe a card and move on, that’s the easiest.’ And it is the best user interface ever invented for payments. But the thing that we learned over the last 10 years of operating is that the young consumer is completely unafraid to handle payments in a combination of a piece of plastic, and an app, or just an app or website. The whole modality of ‘let's keep it as dumb and simple as possible, swipe the card and move on’ is up for renegotiation. $20 billion (in GMV) says so, and we're going to keep growing quickly because young people are hungry for more control and more transparency.

So, I'll rattle off some radical ideas that we think we have, which we don't think are radical at all. But in there you'll hear a little bit about where the products are going. Every transaction should offer you a grace period. There should be none without.

Your card and your payments should be entirely aware of your existing balance, and you should never get overdrawn. In fact, before the regulators kill NSF fees, we think we're going to figure out a way to just get rid of them entirely.

Wallets should automatically present to you the best possible financial decision for you right now. They should always be on your side. If it's higher for longer, your spending account in addition to your

checking account should pay you interest. You heard Libor touch on that a little bit, and we have a lot of plans for that.

Your payment schedules should be smarter than you and should figure out when to put themselves into your calendar right next to your paydays.

Rewards should not be about redistributing money from sandwich shops to huge brands. Safe and cheap bank payments should not be a pipe dream.

We have a lot of plans to do all these things. By the way, everything I just said applies just as much to small businesses as it does to consumers. And as you just heard, we are marching forward towards providing our services to sole props and all sorts of ideas beyond.

If you paid attention to Libor, you know that a bunch of these things are already on the road map. What he didn't say is that they're coming thick and fast as early as the beginning of next year.

The reason for this is because we're actually more than a network. I keep on saying we're a network. Network businesses are the only things that are worth building. I think that is one of the quotes from our original earnings call. But there's more to us than just a giant collection of merchants and consumers. We built an entire technology stack from the ground up. So, a significant and expensive investment in software engineers, time, and all sorts of resources, but it's very much worth it.

We are able to create something that's much more of a platform: building blocks of code that allow us to build new software. If you want to look more of a visual, you can see that Adaptive Checkout is a layer over all the foundational layers. The financial products sit on top of it and there are more coming. Affirm Card is the ultimate container for it all. The reason we drew this way is because as you will see, the new products we launched will become available, not just in Adaptive Checkout, which is a natural place to present new products, but also immediately visible in the Affirm Card and in our partner integrations. So, as we create new innovation, you will see all these products deploy across the merchant base. Of course, so long as the merchants want it.

The software that we build also contains things that handle everything from handling the load, monitoring, logging, self-healing, et cetera. That is what allowed us to win these giant partnerships. By the way, if you're waiting for an obligatory AI mentioned, I will tell you that AI writes quite a lot of test code for our stack. That was a nice little gain we got from LLMs. More importantly, all those clips you saw of consumer sentiment, the ones that are angry are summarized for me by AI and are a direct feeder into areas we're going to improve. So we don't we don't brag too much about it, but LLMs are an important component to where we're going as engineers.

So we’re going to have a pretty easy time shipping new products. Easy is probably too generous, but we have a collection of elements on our road map that we're very excited about. Our competitors are either running on software stacks that are written in languages no longer maintained. Some of those were designed before I was born, and I'm not as young as I used to be. Startups that we compete with may have all the technology, but they don't have the distribution. Every time we launch a product, it shows up in front of hundreds of thousands of merchants and millions and millions of consumers. All of this is going to be available to all of our partners, consumers, merchants, and the Card carriers.

That's because we're much more like an operating system than a network. The network is the foundation, but the software stack is what really matters.

We want to be relevant to every transaction, not just Pay in 4 or Pay in 6. Finance is much more about payments than it is about paying in any number. We want to be the most loved, or at least preferred way to pay for everything.

As a builder of operating systems, we're also our own favorite developer, but we have all the intention, as you heard from Kaz, to open our APIs to our partners and allow them to contribute to the ecosystem of apps that runs on top of our OS.

So, I'll leave you with this: five years from now, we have no intention of being a leader in BNPL. We intend to be the leader in payments. Making it more honest, accessible, and better for everyone involved.

On that note, I'd like to invite my co-conspirators for some questions from you.

Zane Keller – Head of Investor Relations

Ok. I would like to now invite Libor, Wayne, and Pat to join Max on stage for our first question and answer session.

We will accept questions from both the online audience as well as those of you in the room with us today. We ask that you please defer any questions related to financial matters until the second question and answer session, by which time Michael will have presented the updated financial model.

If you have any questions, please raise your hand. If you do ask a question, state both your name and the company that you represent.

Bryan, we will start with you.

Bryan Keane – Deutsche Bank

Hi, it's Bryan Keane, Deutsche Bank. I guess two questions: one, (there are everyday purchase cards similar to) Affirm Card and competitors doing similar things, so how does what they do differ from what Affirm offers? Secondly, as you get more into underwriting kind of general-purpose cards, how do you differentiate yourself from regular bank underwriting on that?

Max Levchin – Founder & Chief Executive Officer

I'll start and I'm sure Libor has opinions.

So, to my knowledge and the knowledge of some of our IP lawyers, no one's doing exactly what we're doing.

The ability to preplan a purchase directly on a debit card or swipe and turn it into a payment plan afterwards is a fairly unique combination. I'm sure it's possible to come close with some of the products you see from traditional banks where you swipe your debit card and then you split ex post. There's a bunch of dangers in that model if you purely go with it. For one, it's a little difficult to predict just how good the credit is going to be if you swipe and say ‘oh crap, that should not have been a transaction’ one too many times, you’re going to find yourself wondering whether this was really a good idea to approve the swipe in the first place.

I'm not too concerned with both the underwriting and product differentiation from the traditional banking competition. But certainly, I've said it before and I'll say it again, there are no monopolies in payments. What I do think we have that is truly unique is not just a collection of consumers that are excited to use the product and love us as you saw. We also have a massive network of merchants. The work that Pat has done since time immemorial and Wayne and their team has allowed us to amass direct links and therefore opportunities for direct promotion.

From the merchants themselves, it's very hard to say: ‘oh, by the way, that swipe is a 0% APR deal’ if the brand isn't actually funding it. That is what we have: the core value of Affirm to the ecosystem is that the economics are fundamentally renegotiated on every swipe. That is not something that anyone else to my knowledge can support.

Libor Michalek - President of Affirm

One thing, just to make sure it's clear, is that the product is not a line of credit. The product is still the same consistent product that we've been building and iterating on, including underwriting.

For every single transaction that is made, we are looking at user signals, merchant signals, point in time signals, to decide if this particular purchase is one that we can extend credit for. Like Max said, I think that continues to be a unique differentiator. It leads to better outcomes for the consumer and on the credit side as well. We're able to do that every single time, in real time.

Zane Keller – Head of Investor Relations

We have the next question from Dan.

Dan Dolev – Mizuho

Great stuff. Can you maybe dig a little deeper into the Affirm Account, very interesting development on the transactional account. What are the opportunities, you know, how does Affirm look like in two to three years with that account in terms of the traction you're getting? Thank you.

Max Levchin – Founder & Chief Executive Officer

So, the most important part of it is actually something I learned at my last payment network. Going from no available balance to some stored balance is a force multiplier on transactional velocity.

I'll give you a couple of use cases that are kind of obvious, but they speak to a deeper purpose. For example, if you're handling a refund on the Affirm card, it is a giant pain for us to build because traditional card networks are not really designed for example carriage of transactional IDs with high degree of veracity through multiple rounds. And so doing this where we are directly integrated is of course easy because we did it the right way. But if you're doing this through a hybrid loop, or a completely open loop, it's very difficult.

Doing this to an account that the consumer has with us. And just for the avoidance of doubt, of course it sits in a bank, it's FDIC insured, it is an Affirm Account that a consumer can access through a device that is managed entirely by Affirm. So when they want to spend that money again, it's available there immediately. That's one really key component. The other one, it becomes an account where if you keep a balance, especially for some of our lower income, lower credit quality consumers, it is a fundamentally important underwriting signal, and if we're trying to extend the coverage to more people, having an account with a balance in it just unlocks a tremendous number of doors. And so those of you have been tracking this for a long time, as I know you have. You know that we've had a savings account for quite some time that we've used very, very carefully to learn about consumer behaviors. We never promoted it. We never put too much weight on that product. But the idea of can we create enough trust to eventually transition that into a transactional account was always there.

So today what we're really doing, the announcement is that we're directly connecting the card with a transaction account and the functionality of the savings account will remain including the APY and all the goodness, but it'll have a ton of other really cool things like ATM access, et cetera. The card will become a full, full purpose card.

Like in many ways I guess I should have answered the question is this will be a top of wallet card. Through the features that it offers, first and foremost,

Libor Michalek - President of Affirm

Practically speaking, our ability to couple them more closely together means we're able to raise credit limits and so from a customer’s point of view, they have more accessible purchasing power. That's what happened.

Andrew Windrum [Question submitted online]

Andrew Windrum asks: it's rarely spoken about at Affirm, but could you unpack how your SKU level data presents an opportunity for brands and merchants to drive conversion and success there?

Max Levchin – Founder & Chief Executive Officer

Oh my God. That's a "Tell me about the history of the world in seven seconds" kind of a question.

I'll give you some examples. I'm sure all of you can come up with your own favorite examples. But if you're buying a thing, and the brand wants you to feel extremely good about buying it over time, the brand can say I will just make the interest be zero because I know what the SKU is and I'm motivated to fund the interest of this transaction. You cannot do that on any other payment network other than the one that knows SKUs. We do, and the others do not. That is the most basic example.

In addition to it, we just have a tremendous amount of information around things like repayment for SKUs, so you start figuring out what it is that people value more like capital assets versus things that they see as consumables, et cetera. It has an enormous feed into our underwriting engines.

Beyond that, we understand consumer preferences. I alluded to it, Adaptive Checkout is all about conversion. If we know what you bought in the past, what you value, what you think, where it is an important thing to have as 0% APR or not 0%; we can use that information to formulate an offer for you and teach the merchant what this consumer will value in their next transaction. The SKU level data feeds both the transactional underwriting as well as transactional offer targeting with adaptive checkout or the card.

Pat Suh – SVP of Revenue

I can add a little bit on SKU information and how merchants are using it. Even a mattress merchant which has just a limited number of SKUs, we have some of our mattress providers having 11 different financing programs depending on you know the price point or potentially bundles. So having that SKU, that ability to do a financing program to a SKU, is very powerful.

For other merchants like OTAs and travel groups, having information about when a flight will take place or when a trip will complete, has some signals into how well that individual will repay that feed into our underwriting.

We've been able to leverage some of that data to enhance our underwriting and approve more for some of our OTAs. So, SKU level information just in itself when you add it in addition to our technology, it's very powerful.

Libor Michalek – President of Affirm

Even using it for inventory management when they want, they have got too much of something and wanting to move it, move product, they can create offers for it.

Andrew Bauch – Wells Fargo

You had one slide where you showed the progression of share of cart within the travel industry. And then I believe the other one was general merchandise. They both had their own little inflection points at certain periods in the life cycle. I think it was quarter seven. So, what are the drivers of that inflection? Is there kind of a road map on how you penetrate these verticals that ultimately starts to drive the flywheel effect?

Wayne Pommen - Chief Revenue Officer

I think that the lumpiness you see in those charts really is tied to when we might have launched some particular initiative with some particular merchant.

Let's imagine in travel, maybe that was the quarter that we went from flights to vacations for example. In general merchandise, it might be when the merchant unlocked a bunch of 0% promos. There's not necessarily an even pattern as to when the different levers roll out, but our strategy is to roll out as

many of them as we can on top of each other over time. Sometimes that requires a lot of cooperation and technical work on both sides to unlock. But you know the goal is kind of this never-ending process of layering on these levers.

Jason Kupferberg – Bank of America

I have two questions. The first one is international versus B2B. I'm curious if you're taking a three-to-five-year view, which of those two do you think will be generating a greater degree of volume and revenue for Affirm?

The second question is on the Affirm Card. Are you seeing any meaningful amount of cannibalization at all versus the traditional Affirm platform and, if so, any way to quantify that? Thank you.

Max Levchin – Founder & Chief Executive Officer

It's a great question. The second one certainly is. I don't know if any of us is really qualified to opine in the first one though. Obviously, I love all my children. With B2B, long time watchers have heard me say on many earnings calls that small businesses are the engine of our economy. I love small businesses with a great degree of passion, and nothing excites me more perhaps than launching this sole prop thing, except the Card of course.

International is so cool and you heard Kaz basically pre announce it for me, so that was cool.

So, I think all these things are going to be pretty awesome. Which one happens bigger, faster? Don't know, don't really care. I think all of those are huge opportunities for us. We see quite a lot of greenfield there.

On the cannibalization, I'll let Libor quantify because his team watches this very carefully. But the one thing that's worth knowing is a huge part of the card design, or how we approach it, is to embrace channel conflict. We invent, build, manufacture and sell instruments. We want to be in every wallet. We want to be in every check out. We're happy to have our logo embedded at the last page. We're happy to have our logo embedded in every button. When we do that, a key part of it is you want every offer that merchants painstakingly put together on our platform available in every channel.

And if it's unavailable there today, we work very hard to harmonize it. You don't want consumers going, oh, I click on that button, then I got the 0% yellow. Then, I clicked again, and it was gone. I forgot which button I clicked. That's noise and friction, we don't want any of that.

So, cannibalization is OK, so long as the economics remain similar, or ideally the same, and we work quite hard to make sure that it's fully harmonized. It's never perfect because everybody is on a slightly different implementation schedule, but it is an important thing for us to track.

Libor Michalek – President of Affirm

We do see positive substitution, and by positive, I mean that ultimately the product that they're substituting into the card has wider reach, has more use cases. So, when we see a customer move from the one-time use cards, from that narrower capability to the broader capability, they are substituting and using the product more frequently.

We see an increase in volume and GMV and usage, like the cohort chart that I showed, that is a lift above the product that they're substituting out of.

Max Levchin – Founder & Chief Executive Officer

Average card usage is more frequent than the highest frequency of pre card user. It stands to reason that the substitution is accretive.

Libor Michalek – President of Affirm

A little bit of inside baseball: as we're rolling the product out, these are the things that we're looking for, right, that the substitution is positive and that's where we have this measured pace from cohort to cohort to really understand exactly what's happening.

Max Levchin – Founder & Chief Executive Officer

I forgot to drop an important stat in my talk track, so I'll ad lib it now.

In support of the argument that we are an operating system, or at least a software development platform that becomes faster and faster, the launch of B2B required no new integrations except for obviously new merchants that are launching with us and no new consumer information.

Affirm Card is even cooler. The time we took to figure out that the cannibalization was positive, and the credit outcomes were better or equal to existing products, was longer than the actual software development cycle. So, the Card was done quite some time ago. We just weren't willing to say, “throw caution to the wind and let's see what happens.” Because we knew there would be a tradeoff and we wanted to see the cannibalization is positive, not negative.

So, you can do your own math on exactly how long it took, but the Card was in my wallet for quite some time before it was allowed to go wider, because we wanted to make sure this cannibalization is clearly positive. We have a lot more to do, so it'll get even better, but we didn't pull the trigger on it until we knew it was going to be great.

Ramsey El-Assal - Barclays

Two questions. First, I wanted to follow up on something you mentioned about merchants now willing to host multiple providers at checkout. I think you characterize that as an opportunity. How do you ensure that's an opportunity rather than the opposite?

Second, just a follow up on Dan's prior question about the Affirm Account. Is the long-term vision here to build up a deposit base to basically fund loans. Could it become an important funding source? Is that the long-term vision, or is that not necessarily the purpose?

Max Levchin – Founder & Chief Executive Officer

I'll take that backwards. The shorthand answer to the second part is no. We're not constructing a backdoor into banking. We do not intend to lend from these deposits. It is certainly not on the road map right now.

It is exactly what I said it was. So, at PayPal when we went from you can't store a balance, to you can store a balance, we saw an increase in transactional velocity because once you have money in your pocket, you tend to spend it a little bit sooner. As consumers pick up Affirm, they say, “oh yeah, I do have a balance there. That's what I'm going to use.” So, it's all about that, more about that and access to cash and all the sort of things that you do with a transactional account.

We don't have a bank charter. We're not looking for a bank charter right now. We wouldn't be able to lend against it even if that was on the road map.

And we've said it before. Just double click on that a little bit harder. We won't seek a bank charter until we see a feature that we need to have one for. If there was something on the road map that said, “we have to build this because it's so on mission and so important to us, the only way to do it is with a bank” then we'll talk about getting a bank charter. Bank charter, in and of itself, is not a positive or a negative. It's just not the thing in front of us right now.

Wayne Pommen – Chief Revenue Officer

Good question on the side by side. I think we're seeing it much more of an opportunity than a threat.

The main reason is that where competitors are already installed is typically in the low AOV space where we hadn't focused as much. As we push more into that space, it's typically us coming into that space as opposed to competitors trying to come into our space. I think if we tallied it up over the past year, we have seen many more examples of us being added side by side versus the reverse.

Reggie Smith – J.P. Morgan

Congrats on the Best Buy announcement today. My question: just looking at Best Buy's website, they have their own card, their own business card much like I guess Amazon does. Can you remind us how you guys win in those head-to-head situations and maybe talk a little bit about the risk profile of a small business, loss rates et cetera. Whatever you can share now to kind lay that out for us. Thank you.

Pat Suh – SVP of Revenue

With Best Buy, they do have the card and they wanted to seek out additional options and that's why they came to us. It is to augment their existing card. Also, what they saw with other providers outside of the card was those approval rates that we kind of talked about during the B2B presentation. So that's 69% of sole prop specifically though being declined. Now if we look at the broader SMB financing, I don't have those statistics for Best Buy, but we do know that there is a significant need. They want to have a wealth of offerings and they look to us to provide that. So that's what I can share today.

Libor Michalek - President of Affirm

The answer, the second part on unit economics. We don't have specific numbers to share, but we do expect that it will be in line with our broader product suite.

Michael Ng – Goldman Sachs

I have two questions. Libor showed a chart around contribution profit per cohort increasing over time. Can you talk about the drivers of that stat? Is it more products being rolled out after each successive cohort, or is it just merchant expansion allowing for users to spend across more merchants?

Secondly, on international, is the go-to market going to be any different relative to domestic? And are you going to have any funding changes that may look different than the U.S. and Canada?

Libor Michalek – President of Affirm

So, cumulative contribution is what it's called. The steady rise is due to an improvement in unit economics. That is primarily driven by a lot of the Pay Now functionality as we were dialing in the new model.

The model that is the newest…is what we call the Pay Now model, the NSF model for swipes as they were. You know as you swipe, then you have two days to settle with your backing account. That was the one model where we spent a couple quarters tuning it. The improvements there, a chunk of that is coming from limit setting. That's what's driving it.

Zane Keller – Head of Investor Relations

I believe there was a follow up question on the international go to market strategy.

Max Levchin – Founder & Chief Executive Officer

The go to market story writes itself: we have a small group of enormously large partners that are all multinational. We need to make sure that we're ready when they're ready. But again, you heard Kaz

say we're going to go international together. You know they typically Shopify has done what they said they will, and we've been the same with them.

So, I feel good about that, and obviously there's plenty of other players that are very active internationally, and we intend to partner with them. We have an exciting list of launch merchants for the UK that obviously we're much more than just contemplating. Probably worth holding off those announcements until we're live in the country, but we will show up to a launch party in London with merchants to show for it.

Pat Suh – SVP of Revenue

The go to market actually is part of the strategy working with our merchants and those markets. It helps us derisk the spend that you need to do to enter an international market and develop brand recognition. So, by launching with a partner, we're able to really not only take advantage of their market share and scale, but also save a lot on go to market.

James Faucette - Morgan Stanley

I wanted to follow up on the question around the Affirm Card cohorts. It seemed like the newest ones were starting off at a higher spend level than the oldest ones have reached yet. Can you describe what's happening in terms of the type of customer, why that's happening, and how we should expect the customer types and additions to evolve over time?

Libor Michalek – President of Affirm

If you look at it, there's a relatively consistent slope. Although the lower ones are sloping up a little bit more as the economic improvements roll through, there's also the model around the Pay Now component. When that was not where we wanted it to be, we were taking more losses than we wanted. Those losses are obviously on principal, so that obviously takes a longer time to catch up.

That was so that starting out negative and even though the surviving components of that cohort are performing well, it's going to take a little bit of time for them to catch up.

James Faucette – Morgan Stanley

The second part of my question is once again on that card mix. I thought it was an interesting chart in terms of credit versus other payment options. How is that mix of debit versus credit performing right now versus what you'd initially expected? Any adjustments we should think about making there?

Libor Michalek – President of Affirm

Well today it's performing very well. It's performing in line (with Affirm overall) and that's largely why the unit economics are coming out similar.

James Faucette - Morgan Stanley

So, the mix of credit versus debit?

Libor Michalek - President of Affirm

The short answer is yes, we expect the mix to be relatively consistent. Although, as those cohorts season, the Pay Now component does start to pick up as people understand the product and they interact with it. Generally, considered purchases are larger purchases. That chart is showing mix on a GMV basis, and not a transaction count basis, and that's why it's weighted the way it is. So that is the expectation.

Max Levchin – Founder & Chief Executive Officer

There's roughly a 2.5x ratio between GMV to transactions if normalized against pay over time. In other words, Pay Now is like 10% of the volume, but 25% of the swipes.

Two important disclaimers.

(The product) was ready about 12 months ago, but it needed to bake. We had some real unit economics issues to deal with. We didn't like some of the user comprehension issues, but the product was basically as it is. But as soon as we said all right, we think it's good enough to start testing with a small group of users, we started building out new features and so part of the look at all these cohorts.

There's a little bit of credit where Libor's team did a fantastic job. When we started with Pay Now it was lossy, and like proper lossy and not good. It's now profitable, which is quite nice. But the other dimension was that there were just not as many ways to use the product, not as many features. There are more coming. We saw some of the perks and rewards type stuff that we're talking about that will increase. Probably, we will put a little bit more thumb on the Pay Now scale and there will be reasons to spend on things that you consume.

So, I would caution the modelers in the room to not over index. (The GMV mix between Pay Now and Pay Over Time) will keep moving as we launch new features, and there's a long roadmap of stuff.

Libor Michalek – President of Affirm

Tying it back to the Affirm Account. That is one where we've baited it with customers, where there's more significant transaction count basis volume moving through the pay now component. But still on a GMV mix basis, it's not far off from what you're seeing today.

Andrew Hillman [Online Question]

How do you envision in store offers being distributed to Affirm card holders in a way merchants still view these purchases as incremental and are willing to pay comparable MDRs to what is seen with e-commerce transactions?

Max Levchin – Founder & Chief Executive Officer

I think if you walk into a store, or you park at the favorite parking lot, and your app flashes up saying if you use your Affirm card a TV on Aisle 5 is interest free over 39 months. That's a pretty sweet way to promote the offer. We have a lot of conviction around just completely supercharging the in store offers. That is where merchants can truly measure incrementality. One of the ways, by the way, to think about offers on the card.

Again, so if you are a payments nerd you know exactly what I mean by card linked offers, you also know that it's the one that got away. It was supposed to be this great thing. It never quite worked. It's a pain to register. It routes through traditional networks. It's not really SKU sensitive. It's got all sorts of issues.

Because of the proprietary rail that we have, the card promotional platform is basically card linked offers done right. We know exactly how to reconcile because we know every BIN, every PAN, and we know the SKUs in a ton of situations. This means that whatever is being promoted, we know the SKU, which allows us to do all sorts of closed loop connections where you can scan a barcode, or the app can just know that you're next to something that's being promoted. So, the opportunities to present an offer at the right time, in the right place, at the right store, are plentiful and that's what Libor meant by the over the air updates like these things can arrive in your app without any need for you to know how it happened. They'll just be there for you. So, we're very, very excited about in store promotions for sure.

Pat Suh – SVP of Revenue

The merchants are excited about it too because they can bring the physical card, have that BNPL transaction occur, no training, very limited information that needs to be passed to the sales rep. There's no need for a card not present transaction any longer. So, it actually accelerates the ability to adopt our financing solutions in store.

Zane Keller – Head of Investor Relations

Great, and that concludes our first question and answer session. Thank you to our four speakers, you'll see them again. As a reminder, we will have a final question and answer session at the end of the presentation. Thank you.

In the second half of today's forum, we will provide an overview of our funding strategy as well as an update on our financial model. To get us started, I would like to invite on stage Brooke Major-Reid, Affirm’s Chief Capital Officer, to discuss our funding strategy.

Brooke Major-Reid – Chief Capital Officer

Good afternoon, everyone. My name is Brooke Major-Reid, and I am Affirm’s Chief Capital Officer.

I heard today that Patti LaBelle was in the building. True story, not sure under what capacity, but I will not be channeling my inner Patti, so you can stay seated. What I will be doing is taking you through an update of our overall funding strategy.

As you've heard from my colleagues, it's a very exciting time in our business for sure. And trust me. I'm so grateful that it's not the same level of excitement we entered 2022 with. On Affirm’s Capital team, that’s no exception and we have made tremendous strides scaling our funding ecosystem over the last several years and that is well ahead of our meaningful GMV growth.

So as a reminder to everyone, we fund the business across three primary channels:

- The issuance of asset backed securities are what we refer to as ABS
- Forward flow, or loan sales
- We also have warehouse lines

On this next slide, I've highlighted a few key stats that reflect our progress over the last couple of years. And that period also covers the most acute uncertain times around macroeconomic uncertainty, some geopolitical uncertainty, but also market volatility.

When we think about what's been happening in our funding channels from left to right, starting with ABS, we've almost doubled the number of transactions we've issued over the last couple of years, and we just priced a $400 million transaction with our banking partners yesterday, which is very, very exciting. Our total issuance volume as of the last quarter stood at $6 billion and that's well in line with how we think about accessing a channel like ABS.

As a result, we've deepened our buyer base, adding 100 plus distinct ABS investors, attracting them to our platform given the quality of our product, and we've done that through our own investor engagement, but also with the support of our banking partners. On the bilateral side, we have increased our strategic partnerships by about 50%, adding warehouse and forward flow partners who we know will be able to scale with us over time.

All of that activity has resulted in a very robust capital position of over $13 billion of funding capacity as of the end of the last quarter, almost double where we were two years ago. Again, that's ahead of the need. I will say that we are acutely aware that excess capacity has a cost. We're wholesale funded, so we manage utilization or excess capacity, the inverse of that, by taking a very risk management approach. So, we tend to hover in the 70 ish percent range (of capacity utilization), much like you've seen us report in our prior quarterly reporting.

On this side, I'd like to take you through our approach. People often ask how do you optimize across all these channels? What do you optimize for? The answer is threefold.

First, we invest in all our channels throughout market cycles. We build the apparatus, we invest in the model, and we have that as our anchor in terms of all the things that we're trying to do to fund the business again ahead of need. The second thing is that we align the capital teams objectives and activities around the financial objectives of the broader business. So, we're constantly looking at how the financial picture will look relative to how we are executing in capital. Finally we execute thoughtfully.

What does that even mean? We cultivate and prosecute a robust pipeline through all cycles. We always have partners and the diversity of transactions that we're looking at such that we're never reliant on a single partner. A single channel is subject to extreme technical market swings that may lead to off market or destructive cost of unit economics relative to cost of funds. So that's really important.

On the right-hand side, we have laid out how we directionally see the interplay across the channels.

What you'll see here is a powerful depiction of why we are so hyper focused on investing in diversity. For example, the warehouse channel looks stable with a very attractive cost of funds. And I should step back and say, across the characteristics that we're looking at, capital efficiency just refers to how much of our own capital and cash we're investing in the funding business, and then market volatility is a proxy for access or pricing.

So, as I was saying, warehouse is pretty stable, but less capital efficient relative to ABS and forward flow. But ABS and forward flow are very susceptible to market headwinds and shocks as much, much like we saw over the last 12 to 18 months. And we continue to navigate the headwinds in the market, but because of this diversity, we've been able to successfully fund the business in an accretive way overall.

We saw this most acutely if you think back to last fiscal Q2, we opted to lean into more balance sheet facilities as we navigate the acute headwinds at that particular time. So, we saw this dynamic at play.

So where does this all take us? Our priorities look like table stakes, but what we're doing is we're doubling down on diversity. It's been our superpower. It's been the thing that we have been quite successful at, and we are grateful for the partners who have hung in there with us over time and that diversity has continued to lead to.

When I talk about managing capital efficiency, it's really maintaining a level of what we call Equity Capital Required in the business that is around the 5% range. We think that's a healthy range relative to scale as we grow the business.

Leading to expansion, we will continue to diversify, but also not just in terms of partners and channels, but in terms of structures. We are looking forward to accessing differentiated pools of capital through new structures, which will ultimately lead us to the point of transformational scale. So, we're looking ahead and when you think about what we're trying to do in Capital, it is to be really thoughtful about the where the business is headed, never be a constraint on the business, and do so while we're thinking about unit economics as well as depth and access in our across our model.

So, with that, I'll turn it over to Michael Linford and welcome Michael, our CFO to lead us in a discussion with some of our Capital Partners. Michael.

Michael Linford – Chief Financial Officer

One, I am so excited we have received a number of questions over the years at Affirm about getting more contacts for our Capital Partners and I am delighted to have on stage with me a sampling of our best Capital Partners across very different strategies and approaches to the market. I think it's going to be a really enlightening conversation for us. So, what I'd like to do if it's all right is start with

everybody introducing themselves just who you are, what your, what your firm is and how you think about, how you think about the asset class, you know very broadly.

Hussain Abbas – CPPIB Investments

Thanks, Michael, and great to be here. I'm Hussein Abbas. I run our strategic credit business at CPPIB Investments. That's about a $10 billion credit investing business as part of our broader capital solutions arm, which is a $30 billion multi strategy credit investing business.

To answer your second question about how we think about the asset class, specifically around the consumer. I think we're actually quite bullish. We think that some of the tough times for the consumer are potentially behind us. We saw the softer print and what we're seeing out there are some green shoots actually. Clearly, it's bifurcated right. You got to be nervous around the lower FICO area of the credit spectrum but broadly we're, we're bullish sort of going through the next year or so.

Jem Tien – JP Morgan Asset Management

Hi, Jem Tien, ABS Trading at JP Morgan Asset Management. I am responsible for ABS Trading and we manage about $750 billion AUM across a global fixed income platform.

In terms of the overall consumer outlook, we are generally still largely positive on the consumer fundamentals as a whole, but you know we are being taken a somewhat cautious outlook. Given the fact that the advent of the stimulus and pandemic stimulus is somewhat in the rearview mirror, we do think the overall subprime consumer has already largely felt some of the pain in terms of losses and delinquencies as well. But we're also keeping a closer eye on the near prime borrowers because we believe that that could be the next cohort to feel some of the pain in the consumer class.

Brendan Feeney – New York Life

Brendan Feeney, New York Life, responsible for our direct investment strategies as well as consumer ABS on the whole.

Looking at the consumer, what we look back to is the volatility that could occur. We've been using the financial crisis as the barometer of how things can change over time. The consumer looks fairly good compared to that time period, maybe not as strong as it was two years ago, but still quite strong.

Our investment strategy will go from senior rated AAA investments to forward flow strategies. So, we are cautiously optimistic that things will continue to perform. We have certain sectors that we haven't participated in, but by and large we think the consumer has held up fairly well. Right now, just looking at specifically unsecured consumer lending, we haven't spent a lot of time or invested broadly in the sector. However, with the Affirm brand, we do think very positively of it, and think it's been a good place for us to put money to work.

Alex Saporito – One William Street

Alex Saporito from One William Street. I am a portfolio manager in our private credit business. Among other things, I buy whole loans and provide financing for consumer lending.

I echo what other folks are saying. We're cautiously optimistic, but we've definitely seen divergent performance between sectors of the consumer as well as across different originators. And we take comfort in partnering with originators that have sophisticated underwriting capabilities that allow them to make adjustments quickly.

To adapt to changing macroeconomic environments, we also take comfort in working with originators that have differentiated consumer sourcing strategies. I think in this market, if you're competing with 30 other lenders for the same consumer, you often get adversely selected on both the coupon as well as on credit. And we like to partner with folks that have strong relationships with their sourcing channels that allow them to get differentiated performance out of those consumers.

Martin Attea – Barclays

I'm Martin Attea. I head up Barclays' securitized products origination business.

I don't know if I have quite the degree of conviction of the rest of the team here on where the markets are going. But then again, I'm on the sell side versus the buy side. So maybe that's ok.

If I look at all the sectors that I cover, which is quite a few globally across all the structured products that we have. And I'm not just saying this because I'm here today, but I particularly like where Affirm is at right now. No matter where your view is, even if you do have conviction, shorter term, higher velocity consumer assets with considerable yield on it are a great spot to be in.

Michael Linford – Chief Financial Officer

We obviously agree. I think you heard a consistent theme across the panel here around cautious optimism and bifurcation of performance. So, I'm going to ask each to speak to specifically how they think about the Affirm assets. Some have already hinted ahead, but Martin let's start with you. What about Affirm gives you conviction?

Martin Attea – Barclays

Yeah, so look I think you've heard hints of it from the other folks. We're starting to see some bifurcation in the market. I think it's easy to underwrite when unemployment keeps going down, interest rates are low, and there is low inflation. But I think Affirm has a real passion for underwriting. I don't know if you always hear a lot of people say they have passion for credit underwriting, but they clearly do and they take a lot of pride into it.

And I think they take full advantage of the fact that they constantly have at bats. Given the shortness of the collateral, they're in a position to continually fine tune. And I think the proof in the pudding is that they actually do that.

If you look at 2021, which I think was a rough year for many consumer lenders, and then you listen to Affirm talk about how they took advantage of the fact that they were seeing those signs early and were tightening up origination over the course of 2022. Then you look at the vintages that we saw in 2022 and on. Each successive quarter was going better and better. I think that says a tremendous amount. So, all that data they're picking up, all the focus from senior management, pays out in really good performance.

Not only do I appreciate it, as Barclays as a lender and partner to you in various ways, but we've seen the receptivity in the capital markets; most recently, on the deal that you priced yesterday. The message resonates. So, it's a great place for a credit investor in my opinion to park your money and good markets and bad, but I think particularly in volatile markets. The inherent nature of the product and the way you underwrite it helps.

Michael Linford – Chief Financial Officer

I'm going to mix it up a little bit. Brandon, I wonder if you can give a perspective here as somebody who's newer to partnering with us.

Brendan Feeney – New York Life

In looking at Affirm and how its position in the consumer lending market, we just do our traditional top-down underwriting approach. First, starting with the management team and who we are partnering with. Is there an alignment of interest? We think those things are critical even before we get to the collateral. These are some of the most important components of finding the right partners.

Looking at Affirm, that checks the box, the alignment of interest. It's not a platform that's just going to sell everything that they originate. You have some capital attributed to this collateral. We find that to be comforting.

Then, looking at the collateral, I think everyone has touched on the velocity of the collateral. Comparing this to a more traditional debt consolidation product that is going to be longer duration. When there's a miss on the credit, you're going to feel that pain for a lot longer. Whereas looking at this product, you can fix it within a month. So the duration of deteriorating credit should be faster. At least that's the theory and we find that to be really beneficial.

You know, I think you're always going to have changing credit markets and changing collateral performance. The speed at which you can correct that and get back to a more normalized state is really powerful when you're dealing with a product that has such a short duration.

Michael Linford – Chief Financial Officer

I'm going to go to the other end of our life cycle a little bit. Hussain, we've been working together for quite a while now. We value the partnership and the way in which you guys show up. I think we can build a business together. I would love your perspective on how you think about Affirm specifically and what gives you confidence that we're going to navigate the market well.

Hussain Abbas – CPPIB Investments

Yeah. Firstly, I think our partnership probably goes back maybe five to six years now when you were still sort of a venture backed company.

You know, we've had the privilege of kind of seeing Affirm grow not only just in terms of like volume, but in terms of the underwriting progress. I think Max used the word par excellence. We would second that.

Now admittedly, when we started the program with Affirm, there was no buy now, pay later. That was something we had to explain to our credit committees, in fact we had to understand it first. But it's been, it's been great to see how the firm has grown through COVID. I think that was the first test. Subsequently, with a bit of capital markets volatility, to come out of that with a diversified set of like funding partners, access to banks, forward flow partners like ourselves, and securitization markets. I think that is a very good testament of a sound capital market strategy. So, there's a big tick there for us.

One of the things that the panelists have said which really resonates with me is this aspect of the ability to re-underwrite credit quickly.

Specifically, in this environment whereby both on the interest rate side as well as on the performance side, there's a lot of volatility. There's a lot of data points being thrown at you both as an investor as well as an originator. To sort absorb that, put that into play, and come out with sort of consistent performance, I think that is the key. That is what has made us stay with Affirm relative to a bunch of other things that we're engaged with on the asset backed side. Hopefully that continues.

You know, our mantra at CPP is to partner with the best. As they grow, we can grow. That has resulted in us staying with the platform.

Michael Linford – Chief Financial Officer

And we're honored that you do. Jem, I'm wondering if you could speak specifically to the ABS program. So, there's a lot of issuers out there. Affirm is relatively young and its history. How do you view the Affirm name inside of your fund?

Jem Tien – JP Morgan Asset Management

It's important to note that we prefer issuers that have skin in the game. Affirm has considerable skin in the game. Unlike other marketplace lending players, where they're just loan aggregators, Affirm is also a loan originator as well as a loan aggregator. So, we do prefer issuers that actually have skin in the game like Affirm.

Additionally, if you look at the credit performance of Affirm versus other marketplace lenders, the performance of Affirm is typically a lot better in terms of credit performance versus their respective peers. We try to choose issuers that focus on credit versus their peers. We feel like if things start to turn sideways, you know Affirm is one of the last credits standing so to speak.

The other thing that we like as an ABS trader (is that) it is an opportunity to add short dated assets at very attractive levels. I'll leave it at that.

Michael Linford – Chief Financial Officer

Alex, want to round us out here?

Alex Saporito – One William Street

I think the one of the main reasons we enjoy partnering with you guys…I'm trying to blank on what I haven't already covered…we do like that there is some gray hair.

Having experience through credit cycles is important in the underwriting business, especially at this sort of scale. With a lot of the fads in financial services over the last several years, there have been a lot of firms that have had good software, good ideas, and just have failed on the execution. Look at the Venn diagram of people with experience and people with exciting new ideas; that doesn't usually overlap much.

Affirm has good software, good products, innovative systems and ideas, but understands how to navigate through cycles with people that have navigated through cycles.

Michael Linford – Chief Financial Officer

Excellent. Brooke I'm going to bring you in here. You made reference to it in your talk and Marty did as well. We just priced a transaction that we were in the market for over the past several days. Give me a little bit of color from your perspective and I'll ask Marty to weigh in about how the market treated us in this last deal that we did.

Brooke Major-Reid – Chief Capital Officer

Thanks for asking about that Michael. We continue to be pleased with the fact that we're providing something that investors feel we're getting credit for. That has not always been the case. We have worked with our banking partners to be disciplined about that.

It's not always been the most elegant landing. So, I don't want to sit here and say that all things have been stellar, but this particular transaction really was a proof point that we're disciplined, we're partnering with investors, and we're thinking about structuring the right way.

I should note that we structure the team. I manage treasury, capital markets, and quantitative markets, which includes the analytics team which structures our deals.

We pressure test the buffers and triggers against everything that our ecosystem would when we are looking at an ABS transaction. We are thinking about the investor. We're asking folks what they would like to see and we're thinking about the next iteration. So, as we executed on this deal in partnership with Barclays and our other underwriters, we were really pleased to see the efforts bear fruit in terms of the execution and the fact that we were able to clear the full stack and have the kind of reception we did over multiple subscribers.

I think the number is seven plus times oversubscribed. That is something that we're quite proud of. We're also grateful for the support because we know what a challenging time it is on both sides.

Michael Linford – Chief Financial Officer

Marty, given that you led in, do you want to mention anything?

Martin Attea – Barclays

Yeah, I'm always happy to weigh in on this sort of thing, especially when we were part of the deal. That doesn't hurt.

I think when you look at it over the course of the year, it has been a very difficult issuance year. There has been a lot of volatility in rates. There have been big swings in sentiment between where people think unemployment is going to go, where rates are going to go, etc. So, it has made for a challenging issuance year for many.

I look back in the year and the deals you've done, and I think each deal has been more successful than the last. You know, your deal before this you were able to upsize materially. This one, as you mentioned, was heavily oversubscribed and we were able to tighten it. I don't think that's a coincidence. As I alluded to earlier, people are starting to see, you know, proof.

There has always been a belief that you guys knew what you were doing on underwriting. But when you see other people with a broader kind of deterioration, and then you see that your most recent vintages are performing better than the year before. Then you kind of partner that up with all the hard work you do in terms of transparency, investor meetings, you road showed recently. You show a lot of commitment, and you've seen your management come in there. You're obviously all very busy, but you're not taking any chances in terms of all the partners you have to make the company be successful, whether it's the underwriting, the capital raising, the outreach.

All of that I think to the point that Alex made when he talks about gray hairs and all that. I'm a huge buyer of that. But the truth is that all of those things, all those details, it's all very thoughtful. Whether it's the new products, the outreach to investors, the transparency, how you're concerned about all your vintages. It's all very impressive, kind of like cradle to grave. It's very gratifying when you do all that work and then it comes up with a lot of investors showing a lot of interest in the deal. And that you see that happen a couple times a row, even though it's not an easy market for anyone to issue it.

Michael Linford – Chief Financial Officer

Well, thank you and thank you to all the panelists. Let's give them a big round of applause.

Here we have the last presentation before Q&A and then cocktails. The most exciting part of the day: the financial model.

Thank you all for taking the time to attend today. Thank you to all of our partners from the outside who participated and thanks to the Affirm team who made this possible. A lot of work goes into these events and thank you.

I'm going to cover three things here. The first is I'm going to recap our progress since the IPO. It's a good moment to look back, being here at Nasdaq. I'm going to talk about our path to the next milestone we talked about with respect to GMV, which is our $50 billion mark. Then, I'm going to update the long term financial model that we shared with you all back in 2021.

I distinctly remember the phone call I got from Max in the summer of 2020 when we decided it was time to take the company public. I remember it distinctly because it was, I think, characterized with a lot of volatility. We went from March with the shelter in place orders coming down, and the fear around what might happen with COVID to a realization that we were winners in the COVID era for sure and that our credit model was passing its first test, as you just heard on the stage a few seconds ago.

We had just finished our fiscal 2020 and the business was obviously very different from what it was today. The macro environment was very different. In the time since the IPO, we've seen changes in just about everything.

But the one thing that has stayed the same is consistent outperformance. We've grown our GMV 5 times since fiscal 2020, a 60% compounded growth rate. Our revenue less transaction costs, the key measure of our unit economics is up 58% on a compounded basis. That's four times since our IPO. Revenue has tripled. And what's really interesting, and pretty new to the business, is we're beginning to show real operating leverage. On a last 12-month basis, we're actually profitable on adjusted operating margin. We're proving Max's vision around the operating system of Affirm driving leverage and we'll talk about that in more detail in a second.

So how do we get from there to the next milestone, the $50 billion mark that we put out there? I think it's important to recap the addressable market that we're playing in. First, you have core retail, the portion of our business that is in the wheelhouse for what we do every day. That will still be the biggest part of what we do. We think we're playing in a $7 trillion space here.

E-commerce is $1 billion of that and the BNPL current penetration is very small. So, we're roughly 2% of US e-commerce today. Obviously, we have a lot of room to grow within e-comm. As you heard Libor talk about, we have a lot of opportunity in taking the card offline to help address the $6 trillion of spend that we largely don't address today.

You heard today about us advancing our B2B work that we have with sole props, so there's another $700 billion business in SMB financing, of which $300 billion is just in sole props alone. And we're pleased to be partnering with some of the leaders in that space out the gate. Then lastly, you heard about international. And international for us represents a sweetener to the addressable markets. We're market leaders in Canada today, a $44 billion market. And we are going to be launching the UK, a $133 billion market. The EU is on the horizon, but that's obviously a very large market too, with a trillion dollars in spend.

So, we want to map out how you take that TAM, and the product roadmap that you heard so much about today, and how it maps into the growth algorithm. In our fiscal 2024 outlook, we have communicated $24.25 billion of GMV.

That growth is primarily going to come from winning at checkout. That's doing more of what we do every day. We've communicated before that our direct to consumer business, in particular Affirm Card net of any cannibalization, will deliver a few points of growth for the year. We feel good about delivering on our outlook of $24.25 billion.

Over the medium term, we're going to work our way to $50 billion in GMV. We're going to do that by continuing to win at checkout, by growing Affirm Card, and continuing to launch new markets. The first of which we think will deliver mid-teens growth rate a year, that's just addressing that $7 trillion opportunity, trillion dollars online and another $6 trillion offline.

The card itself helps us address (the offline market) and we think that it will deliver approximately mid-single digits of growth a year. Then, our new markets will be low single digits per year. Those markets tend to take more time to grow and yet we think it is an important piece of diversifying and scaling the platform.

Before I update the model, there's a few things that are important inputs to it.

The first is the card itself. The card today is three separate financial products. We have Pay Now, Pay in Four, and then monthly installment interest bearing loans as well.

What's important is that the current mix of products that we're seeing with respect to the card is heavily weighted towards monthly installments on a GMV basis. Why that's important is that it is what primarily informs our ability to deliver the 3 to 4% revenue less transaction costs on the card. As Max

mentioned before, there are a lot of transactions that are happening with Pay Now, but most of the GMV, given the higher average order values is sitting in pay over time and monthly installments, 86% of GMV is there (in pay over time). That's a product that we know very well and can print very strong profitable units behind.

The second thing to know is that the mix of in-store versus offline is, relative to Affirm overall, heavily weighted towards the offline portion of the world. So, 26% of the volume is coming offline. Why that's so important, if you think about what it's going to take for the card to get to low to mid-single digits growth per year total contribution to growth rate, you need to be addressing very big markets. We're proving resonance here in a way that frankly no other player has.

We're able to address offline spend today in this form factor better than any other way. So, between the high mix of interest-bearing products and monthly installment products, combined with the strong offline concentration -- almost an order of magnitude higher than the rest of the portfolio -- we feel confident around the long term growth of the product and the profitability of it.

Before I go to the non-GAAP other operating expenses, I want to take a second and talk about the enterprise warrant expense that has been flowing through the GAAP P&L. I want to do this because I think it's important for people to understand a few things.

The first is that there are four different tranches of enterprise warrants, two of which have already fully vested and two of which are still vesting. What's important about that is for the shares that have already vested, they obviously can't drive any dilution even if expense is still flowing through the P&L. Of the tranches that have not yet fully vested, one is vesting on a time-based estimate; there are 2.2 million shares left to vest. Those shares represent approximately $300 million of SBC.

The reason for that disconnect, as you're quickly doing the math in your head, is because we value these awards at the time that they were granted. Which in this case was November of 2021, a time when the share price was very different. As a result, the level of stock-based compensation in the P&L doesn't match what you think the level of dilution might be to the actual shareholder.

The last chunk of shares, which will continue to flow through the P&L through fiscal 2029, is $100 strike warrants. Similarly to the low level of dilution you expect out of the 2 million shares left to vest on the penny warrants, the $100 warrants obviously don't represent material dilution on a fully diluted basis.

So, while the enterprise stock expense, enterprise warrant expense has been flowing through the P&L, we expect it to go down over time and we expect the total dilution to the shareholder to be approximately less than 1% for the remaining investing.

Similarly, stock-based compensation is a topic that's received a lot of attention. We want to make sure everybody understands how we see it. There are two pieces in the chart: you'll see the CEO value creation award, which like our enterprise warrants was valued at the time of the IPO, and then the employee stock compensation which is more normal run rate equity awards for our employees.

The remaining vesting tranches for the CEO value creation award require $132 volume weighted average share price. I hope that we get there and, if we do, I think the shareholder will be quite happy.

The balance is employee compensation. We expect that to be less than 5% annual dilution in the near term and less than 3% annual dilution over the medium term.

Ok. With those two things out of the way, we want to talk about the non-GAAP view of the world. This is our estimate around operating expense leverage that we intend to show over the medium term.

While revenue growth is above 20%, we would expect to be delivering somewhere between 32.5 and 35% operating expenses as a percentage of revenue.

And while we get to sub 20% revenue growth rate, that number will decline to 17.5 to 20%. We'll sum it up for you in the next slide, trust me. The key thing to point out is that we expect relatively low leverage in sales and marketing. We think low single digits whereas we would expect medium leverage, mid-single digits, across tech and data analytics in G&A, mostly because of the relative sizes (of these expenses). On a last 12-month basis, non-GAAP sales and marketing is now down to 5% of revenue and tech and data analysts and G&A are about 18%.

If you look at the fiscal 2023 operating expenses on a non-GAAP basis, other operating expenses were about 47% of revenue. That number fell to 41% on a last 12 month basis. That is a tremendous amount of leverage that we were able to drive in one quarter.

We have a really efficient way to deliver new financial applications to the world and we can drive significant leverage. I think this was a topic of conversation, frankly, for a lot of investors over the years. Our ability to substantially reduce line items like sales and marketing while still growing the business at the rate that we have is impressive.

Here is our updated financial model for investors to look at. The headline is: there is no real change.

Affirm continues to expect to deliver 3 to 4% revenue less transaction costs as a percentage of GMV, 6 to 8% revenue as a percentage of GMV, and 20 to 30% long term adjusted operating margin. The only thing that is a little bit different in this model than two years ago: even in the higher growth periods, we still intend to run the business in the 5 to 15% adjusted operating margin range. This means that, as we demonstrated last quarter and our guidance for this fiscal year implies, we can run the business with a level of profitability and continue to be growthful.

We still intend to keep the same long term margin targets. In the medium term, if we are growing faster than 20% on a revenue basis, we would expect 5 to 15% adjusted operating margins. I will note that our guidance for fiscal 2024 has us at 20% growth rate on revenue and above 5% on an adjusted operating margin basis. This is right in line with the guidance that we've given on the growth phase.

So, I am positive there will be more questions on this, which is why we are now going to move to Q and A and invite everybody up on stage.

Zane Keller – Head of Investor Relations

To answer your questions, I invite all of the Affirm speakers back on stage for our final question and answer session.

As a reminder, we will accept questions from both the virtual and in person audience. If you have a question, please raise your hand and we will bring a microphone to you. Please state your name and the company that you represent.

Our first question will come from Tim.

Tim Chiodo – UBS

Thank you. We touched on this a little bit a week or so back, but I thought this would be a good forum to bring it up again.

We talk a lot about the 3 to 4% RLTC as a percentage of GMV, but there's a big chunk in there from the processing cost, which is a whole (percentage) point relative to 3 to 4%. Could you just talk about some of the opportunities to bring that cost down over time in terms of reducing card-based funding, or repayments via more of a bank based method through the likes of Plaid or others?

Libor Michalek – President

Thank you. Yeah, it's a logical question. We are actively working on moving customers over to bank based or ACH repayment. We are incentivizing that where it makes sense and making it available as

a default repayment mechanism. Especially at the lower cart sizes, this is where products like Max talked about pay in 30 or pay in 2 make sense right, because you have less payment processing cost as a result of it.

We're also looking at users who are high velocity and aligning their repayment dates across multiple obligations so that we can do a single draw. So, the observation is accurate and we are actively working on reducing that cost.

Zane Keller – Head of Investor Relations

Great. It looks like Rob has a question.

Rob Wildhack – Autonomous Research

Thanks. A question for Brooke: I wanted to get your thoughts on the balance between having a ton of willing funding partners and making sure that each of those partners gets sufficient volume. Then, I want to extend that to an environment when the macro inevitably turns and you might have to say, "hey, we're going to pull back on growth. You know your planned allocation might be a little lower." How do you keep all the funding partners happy in that construct?

Brooke Major-Reid – Chief Capital Officer

Thank you for the question. I think it's a nuanced right, which is not always the answer you want to hear. We start with how to think about optimization from a credit from a risk management perspective. We have ABS trusts that we need to fill, and we have priorities with respect to triggers. We're looking to stay clear of any potential triggers or risk limits when you think about how we manage excess capacity.

We are leveraging the forward flow and less capital intensive channels fully. I think the excess capacity that we're thinking about is on the warehouse side. So, warehouse is really that kind of release valve. It's an aggregator, but it's really the emergency valve for us in terms of how we think about managing excess capacity. So, there's rarely a time when we are not utilizing certain channels fully. Most of that excess capacity tends to sit in warehouse lines.

We should never be a constraint on growth. The ability to fund the business is never a part of the equation about whether we pull back or not. The question about pulling back is if we see something meaningfully changing in the broader business, not necessarily on the funding side.

To recap, it's the first kind of risk management. We need to make sure everything's robust and tight, but we're also thinking about how to maximize the less capital intensive channels first as it relates to risk limits and cost of capital there.

[Online question]

Back to the Affirm card cohorts. Can you please share what you've seen between different cohorts? Is the spending higher or are the unit economics higher? Did you start scaling the product more meaningfully once the unit economics improved?

Libor Michalek – President

Gosh, that's a lot of questions. Once we felt we had the economics in a suitable place, I won't say completely optimized, but sufficiently optimized, we started to scale. We continue to optimize and see improvements on the economic side.

As far as cohort performance, we have to disaggregate the seasonality components. When we look at the broader trend of comparing year over year cohorts, we see product improvements generally which leads towards higher spending on a per cohort basis. Seasonally adjusted, new cohorts are spending more on a per year basis than older cohorts. We expect that trend to continue.

Reggie Smith – JP Morgan

Obviously, you guys are really good at risk management. I've noticed in recent quarters that your proportion of revenue that comes from interest income has increased and that's twofold. One, you're raising the APR and two, you're growing the book.

You didn't talk about it specifically, but how are you thinking about the size of your balance sheet? If you could frame that in the context of GMV as well, just trying to figure out you know how large you're willing to get and how much opportunity is in that line item.

Michael Linford – Chief Financial Officer

We're not going to provide any sort of long term guidance on the balance sheet. I think that the capital program continues to have the same priorities that it's always had.

They're not going to get in the way of growth as Brooke said, which means that we're going to enable growth. You saw the investors up on the stage earlier who I think are really good insight into why we're so confident in our ability to enable that growth.

I love Reggie's question because I think that's a bigger risk for us: that we can't keep everybody happy, more so than we can't access capital like we want. We're going to scale and not going to get in the way of that.

The second priority is making sure that we deliver the unit economics that we need to deliver. That is to make sure that we can fund our business, be profitable, and be good stewards of capital.

The last priority is to make sure we manage the amount of equity concentration. The priorities are in that order for a reason. We're going to enable growth no matter what. We're going to deliver our unit economics first and then we're going to be mindful about the equity capital because we want to make sure that we don't get in the way of long-term growth. The constraint will ultimately be the last piece, but only after the first two are met, so we don't.

Today, we enjoy a pretty envious position in that we've got ample liquidity. It really hasn't been a constraint for us. We treat it scarcely though and the reason we've been talking about it so loudly and for so long is because we were definitely mindful of the fact that that's ultimately a constraint on what we can, what we can grow into.

Andrew Bauch – Wells Fargo

Thinking about the 3 to 4% range. Can you give us an update on the variables that can bring us to the high end or the low end? Obviously, mix is an important dynamic here. Anything else that you were thinking about as the mix evolves over time?

Michael Linford – Chief Financial Officer

Great question. Mix is the one word that I think answers the question. It's a mix of capital, loans, partners, and channels. These all tend to swing the number quite a bit.

Last quarter we delivered on the high end of the range. That's despite being in a high-rate environment. And I think there's a real lesson around the funding costs and funding environments. That is important to us, but not as important as our own mix or own execution of capital markets or our mix of channel partners. I think you saw last quarter we were on the higher end of that.

If you look forward, the continued capital mix that you'd expect in periods of heightened use of the balance sheet, let's say at the end of fiscal Q2 like we usually would, you're going to see a little bit more on the balance sheet. That will tend to drive the number down because you're going to hold more loans. Similarly, as you can sell more loans, it can swing to the other way in the period.

Credit always matters. We don't take that number out. We talk about our revenue less transaction costs. It includes the provision which is the amount necessary to support the current expected credit losses. I think that's an important part of our unit economics. Because the loans turn over so fast, we don't think of the problem as being separate.

Andrew Bauch – Wells Fargo

For Max, you had a comment that in the vision being the leader in payments. The business today is skewed towards the lower end of the credit spectrum. Being the leader in payments, in our view, would mean being able to move up the affluence curve. How do you break the ingrained behaviors around credit and rewards that are offered by you know some of the largest issuers in the space today and gain further penetration up there?

Max Levchin – Founder & Chief Executive Officer

We can definitely quibble with the definition of where the business is today.

I wish we could skew as low as I would like. I think there's some tremendous work to be done at the bottom quartile. Generally speaking, we can't really go there because we don't want to price the credit any higher than we do today.

Also, the products that make sense there aren't the ones we make today. So, we play primarily in the two middle quartiles. But you're right, we are far away from the black cards and the sapphire reserves and all of that. I'm not sure we can compete on rewards there.

Also, not sure if we want to compete in rewards. The sort of things that you end up trying to scale the mountain that somebody else already planted a flag on. Where we do skew very high credit: as you know, 26% of our (GMV as filed in the S-1) was due to Peloton. We have now outgrown them quite significantly. But make no mistake, those are 39 months loans, given our conservatism when it comes to credit, those are not at any other quartile than the very top, because we're taking quite a quite a long duration risk.

That is a little bit of a blueprint for what kind of things that consumer is willing to take, even if they have a black card in one pocket and the sapphire reserve in the other. And we'll lean into those learnings quite heavily.

Definitely not going to pronounce any products here. Something that's still in the lab layer versus on the factory floor is the product that I think products that we think would work.

For a higher credit quality demographic the focus is on: “here's a bunch of really great services and amazing deals you can’t get anywhere else and we're not super concerned with the credit quality at all. Expect us to show up with quintuple miles on your favorite airlines or whatever.”

The reason people do that, frankly, is for exactly that. They take MDR from small merchants and give it to the marquee sponsor of the card. That's tried and true and it works OK. I think between our innovation and perhaps the Credit Card Competition Act that game might change.

Kyle Peterson – Needham

On the credit side of things, where are we in the cycle? I was wondering if you give a little more color on you know how you guys are thinking about interest rate and duration risk. Seems like the velocity of the assets are reasonably quick, but any more color on how you are thinking about that would be really helpful.

Libor Michalek – President

As the duration increases, we look at it through two lenses: both the absolute amount of the consumer's debt and also the monthly obligation for that consumer.

We are primarily monitoring the performance of that consumer across all of their obligations to us, and obviously all of their obligations period. But a special attention when they have multiple obligations and where in the payment cycle they are and how they're performing, not just that first payment delinquencies, but also subsequent payments and how that's going.

Kevin Barker – Piper Sandler

We have seen a lot of merchants have a slowdown in transaction volume. Naturally, they're your counterparty and so they're looking to increase conversion rates and spending. How do you balance your conversations with your merchants on supporting them by either opening the underwriting box or shrinking the underwriting box? How do you balance that on supporting them versus pulling back in what might be a weak economic scenario?

Libor Michalek - President of Affirm

Obviously, there is the conversation with the merchant. The primary starting point is always the consumer and their credit performance. We're looking at that and making sure that we're not overextending the consumer, that we're not creating risk for the business, especially as it relates to the capital program.

It's not just a matter of lowering cut offs or increasing exposures, but we also have fixed APR. That could mean moving from a floating interest program to a fixed APR program or going to 0% APR or other offers that can work broadly.

We are not just looking at consumers who are at the limit of what is sustainable for them. We look at the 40 million users that have additional capacity. It becomes more of a question of, "is this the thing that they want to spend the dollars they have remaining in terms of exposure? Is this the purchase that they want to make?"

That's where the merchant is trying to put their best foot forward relative to other merchants. When we think about it internally, it's really two sides of the same coin. On the consumer side, we are trying to increase the share of wallet. We want to capture more of it. On the merchant side, we're trying to capture a larger share of cart. Really, it's a transaction, just two different sides of it.

Pat Suh – SVP of Revenue

We do have conversations with our merchants where we're very transparent and they're transparent with us. If they're trying to lower their cost of acceptance, we look at different ways we can customize the program. As Libor mentioned, we could do a 4.9% APR versus you know a, a variable rate, and that might be better than a 0% offer or maybe you do a 0% offer promotionally at certain periods where you can afford that spend or you offset maybe advertising spend.

So, if you know you're doing a big promotional event, offer a zero percent program. In other times, you might want to cut back. What we try to do is customize the program based on the constraints that the merchant is seeing. At times they may want to flex up to get more volume, at times they want to flex down, but we can be variable and work with them around that.

James Faucette – Morgan Stanley

I wanted to ask a couple of questions.

First on 0% APR. Max, you talked about with Peloton that you had very long duration with high credit quality customers. As you have other 0% promotions, can you bring those 0% promotions to lower credit quality customers if the durations are short enough? Also, should we anticipate that there

should be promotions where you can address those higher credit quality customers in the future like big ticket purchases, longer duration again?

Max Levchin – Founder & Chief Executive Officer

We were kind of hinting at it and it's really an important piece here. There is a total amount of dollars a particular consumer can afford to pay per month.

As the higher up you go in credit quality, for both willingness and ability to repay, it becomes less of a concern. You're not looking at actual cash flow constraints and obviously at a certain level of personal wealth and savings, whatever. All of this becomes more of a prioritization game than actual constraints on the ground, but for the mid prime near upper, upper, mid prime customer, it does become a question of: what is better for you?

Zero percent rate or a longer term and you can sort of imagine it's a fairly obvious 3-dimensional function and you can find the optimal point for just about any consumer if you understand them well and so, we absolutely have done programs with merchants and sophisticated merchants incidentally used the tools that we provide for them. To define these things almost entirely and sometimes entirely without our help.

Again, our job is to build more and more software tools so they can say, here's what I want my approval curve to look like, because I know this particular consumer, a 5.9% APR is more than enough. They are compelled to transact, and it lowers my cost of acceptance dramatically because these are fixed payments upfront.

It is appropriate to think about these things as a continuum of offers; credit quality, merchant margin, those are kind of the three dimensions that we optimize in. It's a 3D surface, but there's always a point for every customer where they'll go from.

Libor Michalek – President of Affirm

On the merchant side, there are merchants with very healthy margins in certain subsegments. We have had conversations where MDRs in those segments are pushing 20%. Because what they want to do, as you said, is go low APR and long duration. We can offer that service.

Michael Linford – Chief Financial Officer

I think it is a mistake to think that we only engage with high credit quality users on 0% APR. High credit quality customers use credit. They borrow. I think that is part of the reason why they have higher credit quality. While we do have the ability to approve deeper, we absolutely underwrite and are able to engage higher credit quality users with interest bearing loans.

James Faucette – Morgan Stanley

My second question was: when you look at the time bridge between medium term and long term growth rates, what brings that slower growth, higher margin environment sooner versus pushes out further? How do we think about the sensitivities there?

Michael Linford – Chief Financial Officer

The biggest thing is how quickly we are able to ship products that resonate with consumers and deliver the economics that are scalable and sustainable.

Max talked a lot about being able to ship products quickly. The constraint will probably be in making sure that they resonate with consumers in a way where you can still deliver the unit economics that we need because we don't think growth and profitability are trade-offs. They really go hand in hand.

It's an issue for us with respect to the unit and with respect to the operating expenses. The investment we make is consistent with the growth that we're seeing in the business and those things are coupled in a way we can control.

Dan Dolev – Mizuho

Thanks for taking my question. Can you maybe talk about the dollar-based retention, net retention seems quite high, I think 115%. Can we talk about the sustainability of that ratio? Is there more room to gain share as that continues? Thank you.

Wayne Pommen – Chief Revenue Officer

We do not see any reason why it can't be sustained. I don't think we've found the upper limit on share of cart. You know, I showed those charts earlier in terms of how the share of cart can build over time and we don't think we've hit any sort of limit there. Then when I look at our ability to retain the logos and renew and when you put those two things together, I don't think we see the reason why it's not sustainable.

Max Levchin – Founder & Chief Executive Officer

Just a friendly reminder that we're still in the 2-2.5% of e-commerce, which is .27% of all commerce, and so it's not hard to have good growth rates and high retention rates if you are bringing into a giant market where there's obvious consumer demand. Once we get to 10% e-commerce penetration, which I hope to get to sooner than later, then we can debate sort of how viable it is and all that.

But generally speaking, we are liked by our partners. They sell more and a lot of them pay us more than they pay for credit card acceptance, which is the best possible litmus test. They have a way of accepting payments. Everybody's got a card of some kind in their pocket, and they choose us right alongside those logos.

That must mean that we add something that otherwise doesn't happen, and so as long as that continues happening with the products that we have today and going forward, I think we feel very good about the dollar retention rates.

Zane Keller – Head of Investor Relations

Any other questions? Otherwise, I think we can end.

Great. Well, I'd like to thank you all. First, thank you to the audience, both virtual and in person, for attending today. Second, we'd like to thank Kaz, Jai, and our funding partner speakers that joined us on stage. And finally, the many Affirmers that took part in creating this presentation. We could not have done it without you.

With that, we will be hosting the Affirm Card and Affirm Money Account demo in the back of the room as well as the cocktail reception. We look forward to seeing you there. Thank you.