Affirm Holdings, Inc. NasdaqGS:AFRM

Affirm Fireside Chat with Piper Sandler

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EXECUTIVES

Robert W. O'Hare
Senior Vice President of Finance

Zane Keller
Head of Investor Relations

ANALYSTS

Kevin James Barker
Piper Sandler & Co., Research Division

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Kevin James Barker
Piper Sandler & Co., Research Division

Good morning, everyone. Welcome to a fireside chat between Piper Sandler and Affirm. Unfortunately, Michael Linford, CFO of Affirm came down with an illness. So, in his place we have Rob O'Hare who can certainly fill that role. So today, we're going to have a 45-minute fireside chat. We have a list of prepared Q&A questions that have already been vetted and also we all have questions that have been submitted by a group -- from investors and retail investors as well that we will also ask. And so, we're going to kick it off here and start with Rob. Rob, why don't you just give us a little bit of background for those that are not familiar with you and your role at Affirm.

Robert W. O'Hare
Senior Vice President of Finance

Great. Thanks, Kevin. Yes. So Rob O'Hare, I'm a Senior Vice President at Affirm. I've been with the company just over 3 years now, I sit on our executive team and with Michael help lead several of our finance functions. My scope focuses on Investor Relations, our FP&A work to forecast the business, I work with our merchant pricing team as well as corporate development and procurement. So it's been an amazing 3 years at Affirm. Prior to Affirm, I was CFO of a few smaller companies and then started my career doing Investor Relations and FP&A work at Pandora and Square.

Question and Answer

Kevin James Barker
Piper Sandler & Co., Research Division

Thank you for that introduction. So just to get started, obviously, you had the Investor Day a few weeks ago. And we've also gone through the Thanksgiving holiday and Cyber Monday, are there any particular unique trends that you've seen this holiday season? I know there's been a lot of media reports going back and forth that may have divergent paths, whether it's GMV year-over-year or others. Is there anything you're seeing out there that's unique in this holiday season?

Robert W. O'Hare
Senior Vice President of Finance

I don't really think there is anything to call out as being especially unique. I think what you tend to see from Affirm in terms of our volume really maps to the merchants that we work with. And so, in terms of some of the categories that are the most prominent for us, I would say the September quarter is probably the best proxy for what we're continuing to see. So, we work with some very large partners in the general merchandise category, and that continues to be our largest category this quarter. And then similarly, Fashion and Beauty was our second largest category in the September quarter, and that's been a strong category for us as well this quarter. So really nothing too earth shattering to report there, but we're continuing to see good traction working with the merchants that we've brought on board and also working to deepen relationships with the consumers.

Kevin James Barker
Piper Sandler & Co., Research Division

Right. Okay. And then -- so have you seen any shifts, whether it's more demand for an interest-bearing product versus a Pay in 4 product, you can maybe talk about what's happening there, particularly in the near term.

Robert W. O'Hare
Senior Vice President of Finance

Yes. Similar to what we saw in the September quarter interest bearing was far and away our largest category in the last reported quarter, and that trend has continued into December. But again, that's more a function of the merchants that we partner with than anything else. So, some of our largest partnerships have at least some interest-bearing component, if not being almost entirely interest-bearing. So interest-bearing will continue to be the largest product for us for a while.

Kevin James Barker
Piper Sandler & Co., Research Division

And those merchants tend to have higher seasonal sales, particularly as we go into the calendar fourth quarter or that push more towards interest-bearing and then that kind of slows down?

Robert W. O'Hare
Senior Vice President of Finance

Yes. I mean the majority of our general merchandise partners do have some seasonal bumps because they are sort of benefiting from the retail trend at large that has a holiday as peak season. So, there is some growth there and interest-bearing in particular, does benefit from the holiday seasonality that we would expect.

Kevin James Barker
Piper Sandler & Co., Research Division

Yes. So, there's quite a bit of seasonality right now, right? Particularly as we go through after Cyber Monday and then going into the holiday season, which creates quite a bit of skew in what the results may look like, right? So, Affirm is quite seasonal, given the short duration of the receivables that you have. Maybe could you delve into the impact of some of that seasonality associated with holiday shopping? And then how that impacts some of your KPIs particularly revenue or GMV and -- or RLTC for GMV.

Robert W. O'Hare
Senior Vice President of Finance

Yes, great question. For us, if you think about a typical holiday season, obviously, Black Friday, Cyber Monday, which typically happens at the end of November and then the peak holiday season continues into the first couple of weeks of December. And so, what that does to our income statement from a profitability perspective, if you think about the fact that we're capturing a lot of GMV and capturing that GMV in the back half of the December quarter, we'll recognize obviously all of that GMV that comes in. But from a revenue and transaction cost perspective, there can be some nuances. The first would be for the majority of our loans, they tend to be interest-bearing in nature. And we recognize the revenue that comes from the interest income over the life of that loan as the interest is collected.

In a period where you have a lot of volume come in, we do need to wait a quarter or 2 or 3, in some cases, to recognize all of the interest income against those loans. When you're looking at revenue as a proportion or percentage of GMV, we will typically see some compression in Q2 in terms of our revenue take rate, so revenue divided by GMV. And we tried to acknowledge that and reflect that in the outlook for the December quarter that we provided in our November earnings call. But that's probably the most consistent and obvious compression that we see on the revenue side. When you're thinking about transaction costs in our business, we have adopted CECL for provisioning for an allowance against all of the GMV that we underwrite and bring onto the platform. And so, you'll see us book an allowance against all of that GMV in the quarter that it's originated. That will compress that will increase the amount of costs we have against that GMV.

And like I said, on the revenue side, it will take a quarter or 2 or 3 for the interest income to come in against those same loans. So you sort of have this dynamic where revenue is a bit depressed from a timing perspective in quarter. And then you're taking all of the provision expense against those same loans in the same quarter. That does increase transaction costs. And the combination of those 2 results in compression down at RLTC, which is revenue less transaction costs, particularly when you're looking at it as a percentage of in-quarter GMV.

Kevin James Barker
Piper Sandler & Co., Research Division

Yes. So you're going to have and then it reverts back going into the first calendar year.

Robert W. O'Hare
Senior Vice President of Finance

Yes. And then once you get into the March quarter, right, you're still recognizing interest income against those same loans and you've -- we already provisioned for the loans back in the December quarter. So, you should see a benefit in terms of slightly increased profitability in the March quarter.

Kevin James Barker
Piper Sandler & Co., Research Division

Yes. I think there was a little bit of surprise around those metrics last year, but it was more just seasonality than anything else. And looking through that, do you expect the same type of seasonality to develop as we saw last year, as shown within your guidance and going into the first calendar year?

Robert W. O'Hare
Senior Vice President of Finance

Yes, I think we've reflected what we expect to see in the outlook that we've given. And so we will see a pretty large just based on the outlook alone we would expect to see a pretty large sequential increase in GMV from the September quarter going into the December quarter. And that's consistent for the most part with the trends that we saw in calendar '22 as well.

Kevin James Barker
Piper Sandler & Co., Research Division

So you see the sales impact from holidays and then the tax payments as well going into some of those as well. Okay. Maybe shifting gears here. You guys recently hosted an Investor Day, you laid out a target of $50 billion in GMV over the medium term. And some of the drivers you said include scaling the Affirm Card, winning at checkout, and accelerating distribution, particularly in Western Europe. Could you speak to some of those drivers as you see the greatest opportunity to achieve that goal of $50 billion? Where do you see like the biggest opportunity within those three levers?

Robert W. O'Hare
Senior Vice President of Finance

We broke down how we would expect each of those large drivers to show up in terms of growth rates into the foreseeable future. And because we built a very large presence within U.S. e-commerce we think that we're barely scratching the surface in terms of the ultimate opportunity in the U.S., winning at checkout, continuing to compound the business with the footprint that we have today with existing merchants and obviously, bringing new merchants and consumers into the fold. We think that's going to continue to be the largest contributor to our growth going forward as we continue to scale towards that $50 billion milestone.

And then we're obviously excited about the traction that we're continuing to see with Affirm Card, and we've given guidance that that will contribute a couple of points of growth in fiscal '24, our current fiscal year, and we would expect those trends to continue as well. And for us to deepen relationships with our consumer base and for that to contribute a couple of points of growth going forward to the overall platform.

And then we did call out things like business-to-business lending, which we've kicked off this fiscal year with Amazon and with Best Buy our two early launch partners there. We expect to do a lot more of that going forward. We think that's a big addressable market that currently is underserved. And then also excited about broadening the geographic footprint. We did call out the U.K. as our next international market. We've done some early work there in terms of getting our licenses in order and have a team on the ground in the U.K. So that will be our next international launch, and we're excited for that to start to contribute to the overall platform size.

Kevin James Barker
Piper Sandler & Co., Research Division

Great. I'd like to delve into a few of those, but just to shift gears quick here from -- we got a question from Kevin M. and maybe you could sum up some of your -- some of what you shared in your financial targets for Kevin M. retail investor who wants to know what is a short-term goal for you? And what is a long-term goal? And then -- did you have any acquisitions that you're considering or maybe mulling over the next year or two?

Robert W. O'Hare
Senior Vice President of Finance

Yes, great question. In terms of the short-term goals, I mean I think maybe the best short-term goal to point to is our outlook for our current fiscal year. We have a June fiscal year, so we've given an outlook that extends through June of 2024. We're targeting to do at least $24.25 billion of GMV in the current fiscal year. We're excited to continue to execute against that milestone. Again, we've given a minimum GMV for the year. We obviously are driving to do as much profitable GMV as we can. We want to make sure that we're working with both merchants and consumers in a constructive and healthy way. I would say that's our near-term goal.

And then longer term, I would hesitate to point to a specific number. I think we've put the $50 billion out there as a milestone. But really, we're focused on driving as much ubiquity as we can at checkout, both in the U.S., but also in markets like Canada and the U.K. and we would expect that we don't stop our international expansion plans. Once we're live in the U.K., we really want to be a global platform and partner with consumers across the world.

It's about continuing to just drive what we call share of cart, our percentage of the checkouts that the merchant is driving, and we want to do that online via e-commerce, like the majority of our volume is today. But longer term, with the Affirm Card, in particular, we can start to sort of earn our share of checkout in brick-and-mortar as well. And brick-and-mortar in the U.S. is a larger opportunity than e-commerce is. So, I think we've got a long runway with which we can drive growth. And that growth is going to come across a couple of different fronts.

Kevin James Barker
Piper Sandler & Co., Research Division

I believe in the Investor Day, you reiterated some of your target operating margins on revenue per GMV and operating margin as well. Could you remind the audience, what are some of those metrics that longer term, you're continuing to target and why?

Robert W. O'Hare
Senior Vice President of Finance

Sure. Zane, are you able to share that slide just so we can sort of show everyone and speak to it directly.

Zane Keller
Head of Investor Relations

Yes. Let me bring that up. Give me one second.

Robert W. O'Hare
Senior Vice President of Finance

Yes. I mean, really, the way that we've approached our profitability targets, Kevin, is really -- we want to base them to be a function of the revenue growth that we're seeing in the business. And so more than anything, we want to make sure that we're making the right amount of investments into the business to ensure that we can continue to compound revenue in really healthy ways just given we still think it's very early in terms of the overall market opportunity that we're pursuing.

You can see here, obviously, we had a pretty strong quarter in September around adjusted operating profit. That's the bottom line profitability metric that we tend to operate towards in the business. And we had really nice levels of profitability there. And we want to make sure that we continue to drive some profitability while the business is growing north of 20%.

You can see the target is roughly 5% to 15% overall adjusted operating margins when business is in that quantum of revenue growth. And then longer term, if and when the business does slow down from a revenue growth perspective, we would look to scale profitability further.

I don't think there's anything sort of unnatural that needs to happen in the business for us to achieve these levels of margin. I think it's really going to be operating leverage as we continue to scale should allow us to grow and expand our profitability and in particular, sort of as the business reaches a saturation point in that last column on the far right when growth rates start to sort of dip down below 20%.

So, this is really the framework that we use internally to make investment decisions. And it's a framework that we established with investors back in the fall of 2021. And we've continued to sort of operate against that. And I think we've been happy with the fact that if you look at the LTM column, we've grown the business at incredible rates over the last several years of being a public company. And I think we've continued to drive nice operating leverage to the bottom line. And on a trailing 12-month basis, we're just north of breakeven at the bottom line and obviously had, I think, roughly a 12% operating margin in the most recent quarter.

I think we've definitely turned the corner on profitability. And at the same time, we want to make sure that we leave space in the P&L from an expense perspective to invest in things like the U.K. and some other new markets and opportunities that are currently under development.

Kevin James Barker
Piper Sandler & Co., Research Division

Okay. Thank you for all that detail. Just to follow up on some of the $50 billion target that's out there. And the 3 drivers you have out there. Obviously, Affirm Card is a big deal and a big portion of that has started to gain momentum in the near term. What are some of the key milestones we can look for within scaling the Affirm Card in particular?

Robert W. O'Hare
Senior Vice President of Finance

Sure. The Card idea is arguably one of the most exciting things that we have going on at Affirm today.

In terms of success metrics for that part of the business or that product, I think they're still pretty basic. It's early enough that looking at sort of the key top line metrics that we look at internally are going to be the most important milestones for investors. The number of active cards that we have the GMV that's coming from those cards. And then maybe a secondary set of KPIs would be around just the frequency that we're seeing from Card users and then where and how they're choosing to transact with the Card.

We've seen roughly 1/4 of our card GMV come in brick-and-mortar stores. I think that's an important component of the Card is that it does really help us accelerate our brick-and-mortar GMV, which I think long term will be important. And then again, like I said, the frequency and the mix of what we call Pay Now and lending GMV coming from the card. I think those would be sort of secondary metrics.

Kevin James Barker
Piper Sandler & Co., Research Division

Okay. And then you also mentioned winning at checkout or touched on it. Affirm has already integrated what, roughly 60% in U.S. commerce at this point. What specific changes can you make to win at checkout to really generate growth within your existing customers. Is there something else there that you could really drive winning at checkout?

Robert W. O'Hare
Senior Vice President of Finance

Yes. I mean I think the best example to point to today is probably Shopify, where we've posted, I think, based on the September quarter, September was our third consecutive quarter of accelerating GMV growth on a year-over-year basis. Shopify is obviously a very large partner of ours. It's a very deeply integrated partner of ours. And one of the things that we've done within the Shopify program is add new lending products to the program over time. So that program began as a Pay in 4 only offering. And then roughly a year into the relationship we added interest-bearing and then have continued to add longer term, 0% loans as well. Broadening the aperture a bit from a product perspective is definitely something we can do to continue to take more share of checkout from the merchant and, frankly, hopefully grow and drive incremental growth for the merchant that we'll benefit from as well.

And I think in the case of Shopify, when we added interest-bearing loans that can go over a longer time horizon, that might be the right product for the consumer for certain larger purchases. And so that's helped broaden our aperture within the Shopify platform as well. So we would look to do something similar with each of our large partners.

We have a team internally that's tasked with partnering with the merchant post selection by the merchant. And once we go live on merchant, it's just the beginning of the journey. We're always looking to experiment and optimize the financing programs that we bring to a merchant. That's typically a conversation with the merchant to make sure that we're finding the right setup with them, that works for us and works for them.

But yes, I think broadening the product offering through things like adaptive checkout, which bring both Pay in 4 and typically in interest-bearing or a longer-term 0% offering to the consumer at the point of checkout, we see nice incrementality with that program as we've scaled it across our merchant base.

Kevin James Barker
Piper Sandler & Co., Research Division

So in addition to some of those product enhancements that you're doing and expanding that merchant -- to the merchant, is there anything else out there that you see that you can add as a product? Or are there things that you have that are being developed that maybe others are doing that you can enhance that product offering for some of your largest partners?

Robert W. O'Hare
Senior Vice President of Finance

I mean we're always looking at things like sort of how low can we go in terms of the minimum cart sizes, right? So we've been optimizing around that KPI. If you think about how Affirm has grown historically, we started at sort of the higher end of the average order value spectrum financing things like mattresses and Pelotons and we've consistently moved down the spectrum during our tenure as a public company.

We're looking to do more of that. We think that being ubiquitous across e-commerce, being able to finance purchases large and small, especially with consumers that we may have already worked with. I think that's an important way for us to expand frequency and to expand reach and to expand our share of checkout at our existing merchant base. So those are some of the other things that we'll tend to optimize around are making sure that we have the right aperture from an average order value perspective so that we go as low as we need to from a cart minimum and also as high as we can to support more larger and considered purchases.

Kevin James Barker
Piper Sandler & Co., Research Division

So the expansion of that product, and then you also mentioned the business loans as well or small business loans that you're looking at.

Robert W. O'Hare
Senior Vice President of Finance

Yes, right. B2B is another way to deepen the relationship. In the case of Best Buy, that's our first integrated relationship with Best Buy. So we're starting with B2B with obviously a very large partner. And then Amazon, it's been a great way to deepen the relationship and to start to build inroads into another team within Amazon, the B2B team has been a great partner for us as we've turned on this initial launch into B2B lending.

Kevin James Barker
Piper Sandler & Co., Research Division

This dovetails into a retail question that we received XinXin H. asked, is there any plan to add mortgages or vehicle loans? Do you see any other products out there?

Robert W. O'Hare
Senior Vice President of Finance

It's a great question. We haven't -- we've never financed the purchase of vehicles, but we have a pretty meaningful business in the service centers at several large dealership chains. And we have found that to be a really great opportunity for Affirm.

To date, we've stayed away from what we call secured lending. So typically, both mortgages and car purchases are secured lending, meaning that the good that's being financed could be repossessed by the lender. That's not a core specialty of ours, repossessing goods. So, I think you'd see us stay away from secured lending, at least in the immediate term.

We really are focused on making sure that we are as ubiquitous as we can be. I think you're more likely to see Affirm in the service center at a dealership than you are when you're actually buying the car.

Kevin James Barker
Piper Sandler & Co., Research Division

So keep it to maybe even smaller transactions, not necessarily...

Robert W. O'Hare
Senior Vice President of Finance

That's right. I think that's consistent with, hopefully, the trends that investors have seen from us in terms of -- we've continued to lower our average order value. That's us driving down the AOV spectrum. And obviously, cars and homes would bring average order values way up for us as a platform. We're definitely moving in the other direction - smaller basket sizes, more frequency with consumers. That's really important to us, we think, long term to drive a large and healthy network of consumers.

Kevin James Barker
Piper Sandler & Co., Research Division

The smaller and more velocity, all right. And then I just want to follow up on the other driver into new markets. When do you expect to start to see meaningful growth? I know you mentioned particularly the U.K. as a key -- as the first and real foray there in Western Europe. And then do those types of markets compare to Australia that you also tried to expand internationally? How is that different? And what should it look like?

Robert W. O'Hare
Senior Vice President of Finance

We haven't given an exact date for launch. I would encourage investors to stay tuned for that. We'll have more to share in the coming months and quarters. But we are actively working on the U.K. launch today and we're excited for that to be our next market.

Comparing and contrasting the U.K. to Australia, what we like about the U.K. is that there's already a pretty large interest-bearing financing opportunity in that market. And I think that lines up well with how we've operated the business and how we've comprised the GMV in both our U.S. and Canadian markets to date. I think it will allow us to run a playbook from a product perspective, that is the most similar to the U.S.. Also, the U.K. is obviously a very large market opportunity from both an e-commerce in a brick-and-mortar retail perspective.

So we're excited about expanding. I'm sure we'll learn a lot as we go live in the U.K. Every market is different and unique. But Australia does not have the same potential for interest-bearing loans that the U.K. does. We think the U.K. is a great next step for us.

Kevin James Barker
Piper Sandler & Co., Research Division

We got another investor question here that follows up on some of the holiday season questions that we had. There's been some media reports about book-buy now pay later seeing a real acceleration, particularly in this holiday period. Was there anything that you saw, particularly from Affirm or maybe even other initiatives that may have happened, whether it's consumer awareness or marketing or maybe even relaxed underwriting that may have unlocked Buy Now Pay Later to see maybe an inflection in growth, particularly around the holiday period?

Robert W. O'Hare
Senior Vice President of Finance

I can only speak to how we've operated the business. We've been consistent this holiday season around our underwriting posture. We don't use loosening as a way to drive short-term growth. We want to make sure that we're extending credit to consumers that more than anything is an amount and the terms of that credit are such that the consumer can pay us back. That's the way we've operated the business since day one.

The most profitable thing that can happen for Affirm is that consumers pay us back and pay us back on time. We don't have any sort of compounding interest in our loans. We don't have any sort of late fees. So we wanted to make sure that we're extending credit in a responsible way to our consumers and that we're setting them up for success to spread payments out over time and not create debt that they can't service and repay on their side.

For us, the way to drive growth is typically by optimizing merchant programs, and sometimes that means bringing new or different loan products into the merchant relationship. And we are we are sort of continuing to grow with our largest partners, and we benefited from the success that those large partners continue to have.

Kevin James Barker
Piper Sandler & Co., Research Division

And maybe another follow-up, given you addressed credit there. The credit loss curve seems to have normalized roughly near 2019 or slightly below 2019 levels. What is driving some of that better historical credit performance? And do you expect this to continue as we move through 2024?

Robert W. O'Hare
Senior Vice President of Finance

Yes. We're always laser-focused on credit outcomes at Affirm. It's an important part of how we operate the business and just our DNA internally.

First and foremost, the biggest thing that we benefit from as a platform is our approach to underwriting. We are underwriting every single transaction typically at an item level every time that a consumer chooses to check out with Affirm. And so -- and we're creating loans that on balance are roughly $300 each and short term in nature.

The combination of smaller loans with a pretty short duration that are re-underwritten every single time at the point of sale, that gives us a really rich data set and allows us to course correct or optimize the credit box as needed if we start to see signs of stress come through the repayment data that we're staring at every week. So that ability to be nimble with our credit posture and to tighten credit when we see signs of consumer stress. I think that's served us really well over the last year or two as rates have started to increase. And as the impact of those higher rates has put stress on consumers and as consumers have also navigated a pretty a pretty unique inflationary environment over the last two years as well.

Kevin James Barker
Piper Sandler & Co., Research Division

Yes it certainly has been. It's been quite a ride for some consumer lenders. Shifting gears back to your growth in Affirm, particularly new customers may require additional incentives. Could you talk about the potential rewards programs you may look to introduce to entice more customers and are you doing any testing right now around certain rewards products?

Robert W. O'Hare
Senior Vice President of Finance

Yes. Great question. I think Affirm benefits from the fact that we have a large and diversified presence at e-commerce. And for most of our merchants, Affirm shows up at actually the product display page on most of the sites that we partnered with. So, we benefited a lot from that footprint in that real estate that we have with our merchants.

To date, we haven't really had to incentivize consumers beyond that. We want to make sure that we provide the best terms that we can to those consumers. That's going to dictate whether they choose to work with us for the transaction or not. But we haven't really incentivized new consumers with rewards otherwise.

We are starting to do some unique things with Affirm Card. I think that's an interesting surface for us to start to experiment with different reward schemes. I don't think rewards needs to mean points on airlines or cash back per se. What we've seen to date and what we've experimented with is really frequency driving new and unique and sort of early versions of different loan offerings in the card. That's been one of our more interesting early forays into rewards.

I think over time, we're going to find the right incentives to drive the engagement that we want to see, particularly within Affirm Card. Getting users into the Affirm Card is where we're focused right now. That's a logical progression for most of the consumers that we work with. And we think Affirm Card is unique in that it offers sort of the everyday utility of a debit card, but also fair and honest financing products as consumers need them for larger, more considered purchases.

Kevin James Barker
Piper Sandler & Co., Research Division

So maybe longer term, you may consider a more robust rewards program...

Robert W. O'Hare
Senior Vice President of Finance

I think so. I think we're going to find our way there. We're seeing really good uptake of the Card over the last couple of quarters. Rewards is definitely something that will be part of the product longer term, but we're going to sort of find our way there and find the right combination, whether it's monetary incentives, whether it's offers that are tied to where and how you're using the card, or whether it's unlocking new financing products that might provide more flexibility to consumers. I think it will be a subset of those.

We also have the ability to optimize and offer some incentives around the interest rates that we're charging for finance purchases on the Card. I think that's another surface that you'll see us experiment with from a rewards perspective.

Kevin James Barker
Piper Sandler & Co., Research Division

Great. And then, we got another question here from Connor F., who asks as Affirm considered offering buy Now, Pay Later solutions inside of retailers' physical locations. We've seen Walmart and others are looking for ways to engage people at the point of sale to avoid card abandonment. Could you provide maybe a physical on-ramp kiosk or something similar at Walmart or other type retailers?

Robert W. O'Hare
Senior Vice President of Finance

Yes. Actually, Affirm is live within Walmart from a brick-and-mortar perspective today. Walmart is one of the largest, if not the largest brick-and-mortar retailer in the country. So it's great to have the relationship, the long-term relationship that we've had with Walmart. And yes, you can use Affirm to finance purchases out of Walmart physically.

We also think that Affirm Card is a really great way for consumers to engage with our lending products for checkouts in the physical world. Affirm Card brings all of the functionality that you would get for an e-commerce transaction that's financed with Affirm into a pretty simple form factor and puts the ability to finance, larger purchases into the hands of the consumer in a pretty frictionless way.

Kevin James Barker
Piper Sandler & Co., Research Division

Great. And then I got some more questions, just a follow-up on going back to credit. In particular, the reserve ratio ticked up in the first quarter, and it seems this might be seasonal. Is there anything that would've driven the pickup in the reserve ratio besides seasonality with higher GMV, particularly going into the second quarter?

Robert W. O'Hare
Senior Vice President of Finance

Another great question. One of the things that happened in the September quarter was that we brought on a handful of new loan buying partners on the financing side within our capital program. And so, when you bring on a new loan buyer, we start to allocate new loans as they come into the system, we allocate a larger proportion of those loans to our loan buyers because there's new loan buyers that are being "filled up" to their allocation limits.

What that meant was a higher proportion of our new volume was moving off of our balance sheet. And what was left on the balance sheet were loans that were slightly more seasoned than the balance sheet composition we had posted in the June quarter. Because the loans were slightly longer-dated, or longer into their life cycle than they had been in the prior quarter, the loans that were going to be paid back had already paid back a bit more. So there's a bit of a denominator effect, meaning that the loans that were delinquent were just a higher proportion of that cohort because the cohort had started to pay back based on the volume that had run through the system that quarter.

Kevin James Barker
Piper Sandler & Co., Research Division

So pretty unique, just the shift that's going on in...

Robert W. O'Hare
Senior Vice President of Finance

Yes, I think it was really a function of something that we think is a positive thing for the business, deepening the relationship and bringing on some large and really important loan-buying partners, and that just changed the composition of the balance sheet at quarter end.

Kevin James Barker
Piper Sandler & Co., Research Division

Okay. And then just a follow-up on that as well. There's been a lot of controversy over the macro environment constantly going into a recession, but never actually happens. What is Affirm thinking utilizing as a macro forecast or how are you thinking about the macroeconomic outlook? And how would that impact your guidance or how you think about 2024?

Robert W. O'Hare
Senior Vice President of Finance

I hope this answer isn't overly disappointing. I don't think you're going to find us to be the best macro prognosticators because we benefit from being present at the point of sale, having an opportunity to underwrite every single transaction into a loan product that turns over really quickly.

We tend to focus on our own data sets, first and foremost. And we think that we have real-time indicators into consumer stress just based on the early repayment data that we see from our borrowers. And we'll course correct based on how repayments are doing. That may mean small optimizations, either loosening credit or tightening credit, and we can do that down to a merchant level.

We really don't have to take too long of a view on sort of big macro indicators like unemployment. We tend to assume a pretty constant macro environment from an unemployment perspective, and then we're trying to reflect our cost of borrowing based on the forward interest rate curves that are available to everyone. Those are probably the two biggest macro assumptions that we make in our outlook.

Kevin James Barker
Piper Sandler & Co., Research Division

Okay. We're getting a little tight on time. I'm going to go through a few more questions that we got in here. Shedrick H. asks, is Affirm going to pay dividends?

Robert W. O'Hare
Senior Vice President of Finance

We don't have a near-term plan to pay dividends.

We just turned the corner on profitability. We're focused on scaling that profitability as a function of our revenue growth, as we talked about earlier in this call. We want to make sure that we don't underinvest in sort of the global opportunity that we see for Buy Now Pay Later and the ability and the opportunity that we have to partner with some of the largest merchants in the world from an international perspective. We're really focused on continuing to take share and to scale the opportunity globally. And so I think it will be a while quite a while before we have any plans to pay dividends.

Kevin James Barker
Piper Sandler & Co., Research Division

Maybe that relates back to your guidance with the revenue.

Robert W. O'Hare

Senior Vice President of Finance

Yes. We're focused on growing revenue and doing it in a profitable way and driving operating leverage through that revenue growth, and dividends are, I think, a long ways out for us.

Kevin James Barker
Piper Sandler & Co., Research Division

Okay. And then maybe another follow-up on competition. We've seen quite a bit of consolidation over the last couple of years within Buy Now Pay Later space. Could you speak to why you've been able to grow share despite an increasing amount of competition? And just particularly from the likes of Klarna or Afterpay. And what is Affirm doing to set itself apart?

Robert W. O'Hare
Senior Vice President of Finance

I think the resources and the capabilities that we bring to bear from a product and engineering perspective. I think those are differentiated in the market, and that's why some of the largest e-commerce platforms in the world have chosen to partner with Affirm. So, we want to continue to support those platforms and merchants, frankly, big and small to drive incrementality for those merchants. But I would point to some of the larger partnerships. I think those have been unique and obviously have been large contributors to the success and the GMV growth that we've seen in the U.S. market in particular.

Kevin James Barker
Piper Sandler & Co., Research Division

And maybe a follow-up on that. Amazon obviously has many financing partners, including several large banks. Now why do you feel Affirm provides the right value proposition relative to some of these larger competitors, particularly with Amazon?

Robert W. O'Hare
Senior Vice President of Finance

I think first and foremost, I think you've seen the growth of Buy Now Pay Later broadly defined across the U.S., but frankly, global markets because it's consumers choosing to transact and I think consumers seeking in our case, fair and honest financial products. It really has been consumer led. Once we're live on a merchant site, whether it's Amazon or any small business, we really have to earn our share of wallet with the consumer, and we do that by providing fair and honest financial products and we're hopeful that we can help drive incrementality, particularly in the case of larger, more considered purchases that and drive sales to a merchant that they might not otherwise get.

We think that we're really at the end of the day, we're selling incrementality into our merchant base, and that's what's allowed us to win. And obviously, we can find new and innovative ways to expand the footprint with merchants and bring as many financing products to bear as it makes sense for the goods and services that those merchants are selling. And then with consumers, we want to be as transparent and clear with the consumers as we can be around our loan terms, and that's helped us gain a pretty loyal following on the consumer side.

Kevin James Barker
Piper Sandler & Co., Research Division

And I know we're running low on time here, but just going to wrap up here with a couple of retail investor questions on the future of Affirm. Thomas K. asked what does the future outlook for Affirm look like? And then we also have a follow-up: where do you see yourself in the next 5 to 6 years.

Robert W. O'Hare
Senior Vice President of Finance

Yes. I mean I think the things that we spoke about at the Investor Forum, I would encourage everyone to spend some time with the investor forum materials that are on our Investor Relations website.

We're focused on continuing to drive ubiquity both in the U.S. and Canada, but also increasingly into the U.K. and with more markets to come. We've put $50 billion of annual GMV out there as one of our next important milestones. I think it will obviously take a few years for us to get to that milestone. We're focused on getting to that scale point and doing it with the right level of profitability based on the revenue growth frameworks and the overall profitability frameworks that we've also outlined in that investor forum.

Kevin James Barker
Piper Sandler & Co., Research Division

Okay. One more question and I think that I ask most management teams are, talk about what keeps you up at night? And also, what gets you excited about the next few years.

Robert W. O'Hare
Senior Vice President of Finance

I'll take the last one first. I think we're in just an enviable position in terms of the long list of merchants that we work with. I'm excited to see us continue to grow that list of merchants and also excited with the early traction that we've seen from our Affirm Card offering. I think that's going to be a meaningful part of Affirm in the medium to long term, and it's great to see the acceleration in that product in particular.

What keeps us up at night is that we are always laser-focused on doing the right things for consumers and setting the right credit posture from an underwriting perspective, and that requires constant vigilance. We don't rest on our laurels from an underwriting perspective. Like I said, we're always looking at the repayment data to make sure that we've got the right credit posture and that the credit posture that we had yesterday still makes sense for us today. That requires constant vigilance. And so far, we've been able to navigate a pretty volatile macro environment really well. But we still have to show up every day and make sure that we're making the right credit decisions going forward.

Kevin James Barker
Piper Sandler & Co., Research Division

Great. Well, I think we're out of time now. But Rob, I'd like to appreciate my thanks for spending time with us today.

Robert W. O'Hare
Senior Vice President of Finance

Thanks, Kevin. Really appreciate you moderating here, and we always look forward to this event to engage with shareholders in this forum.

Kevin James Barker
Piper Sandler & Co., Research Division

Thanks for having me. And you have a good one. Thanks, Rob.

Robert W. O'Hare
Senior Vice President of Finance

See everybody next quarter. Thanks