Wolfe FinTech Forum

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Call Participants

Affirm
Rob O'Hare, SVP Finance

Analysts
Darrin Peller, Analyst, Wolfe Research
Will Vu, Analyst, Wolfe Research

Presentation

Darrin Peller, Analyst, Wolfe Research

All right, if everyone can take your seat, we're going to kick it off with Affirm, it's a company that we don't formally cover yet, but we've been doing some work on it and we have a lot of investors that ask us about it. So obviously of high interest. And you can see in the move in the stock, a lot of focus and a lot of following by our investor and our client base as well. So with that said, really happy to have Rob with us who's the SVP of Finance. We met with him actually on our bus tour back in December also, it was extremely helpful. And Will from my team is moderating this panel and doing some of the work on the story as well. So with that said, let me turn it over to you guys. Thank you.

Will Vu, Analyst, Wolfe Research

Yes, absolutely. Appreciate the introduction here, Darrin. Rob, again, really great to have you here. I was wondering if you can maybe just start off high level and talk about some of the key learnings that we've seen transgress over this past quarter? Anything you can touch on there?

Rob O'Hare, SVP Finance

Yes. So we just announced our second fiscal quarter in early February now. And I think we had a really strong holiday season. Obviously, fiscal Q2, calendar Q4 is the high-water mark for us in most years. And we saw a really nice growth across a number of our large programs. I think one of the things that stood out for us in the quarter was really the strength of Shopify. Shopify is a program that's been live for us for coming up on three years now, and we saw growth accelerate for the fourth consecutive quarter on a year-over-year basis. And we attribute that to several optimizations that we've been able to make on the product side, but also the fact that the program has expanded from its inception to now include interest-bearing loans and longer-term 0% loans. And so being able to offer that full suite of products from the Affirm perspective has helped us continue to drive growth in really nice ways.

Will Vu, Analyst, Wolfe Research

Got you. Definitely be touching on a couple of those topics in a little bit. But I also wanted to just pick your head a little bit and just kind of hear your thoughts around some key priorities and strategic initiatives that you and the management team are really focused on.

Rob O'Hare, SVP Finance

Yeah. I mean I think we still believe that we're very early in terms of addressing the U.S. opportunity that's in front of us. So focusing on sort of what we call our core, but U.S. checkout. I mean that's a big priority for us and should continue to be for the foreseeable future, just given how large the opportunity is. And I would say, outside of that, we shared some things in our investor forum last November, but really things like moving further on the international front are important to us. So we've announced that we'll be live in the UK this calendar year. So that's a big initiative for us beyond the U.S. checkout. And then we're also continuing to see really nice scale and progress with Affirm Card, which is one of our direct-to-consumer offerings. And so we have a dedicated team focused on that product, and there's more to come on the road map there.

Will Vu, Analyst, Wolfe Research

Got you. I wanted to take some time to quickly talk about some of the trends. You just kind of alluded to seeing some pretty notable strength in your past fiscal quarter. And more recently, we've been seeing GMV effectively accelerate almost every quarter. Can you talk about some of the trends that you have been seeing more recently? And then also, what are some of those factors that you are seeing that's underpinning that strength?

Rob O'Hare, SVP Finance

Yeah. I mean you're right, we have seen accelerating growth for the last couple of quarters here on the GMV front, which is obviously encouraging. I think some of the things that we've been doing over the last year are starting to bear fruit in terms of GMV performance. One of the biggest initiatives that we had over calendar 2023 was moving our interest-bearing loan book up to a higher APR, up to a higher consumer rate cap. We moved from a 30% cap to a 36% cap. And in most – almost all cases, that's allowed us to be more inclusive from an approval perspective, and those incremental approvals have helped drive accelerating growth. And we've been able to do so while also expanding our unit level economics and driving good sort of unit level profitability.

Will Vu, Analyst, Wolfe Research

Got you. That's really helpful. And it's a perfect segue into my next question, which is looking at the outlook in particular. A question that came up a few times during your most recent earnings was around the implied cadence of growth for the remainder of the year, especially given kind of what we've been seeing over the past few quarters. And with that in mind, I was wondering if you can maybe just discuss some of the incremental opportunities and also subsequently some of the risks that investors should really be cognizant of at this juncture as it relates to that outlook?

Rob O'Hare, SVP Finance

Sure. I mean I think it's important to maybe just level set and zoom out a bit on how we set the outlook for the year for our business. In this year, in particular, we gave a minimum target for the full year, we're a June fiscal year, so we gave a minimum target for fiscal 2024. We gave a minimum revenue number. We gave a rough target for revenue and revenue less transaction cost take rates. But what we didn't do is provide a range sort of a high low. We just gave a floor for GMV. And I think some of what people are looking at is now that we've guided for Q3 in a range, you can imply a Q4. But that Q4 that's implied depending on how you're doing the math is probably a worst-case scenario. And so I think to point at that number and point to a decel, I think, is not the math that we were intending for the investment community to do. We've only given specific guidance for Q3. We're comfortable with the minimum floor that we have for the fiscal year. We'll revisit that, we expect when we give our – when we have our next earnings call. But we weren't looking to signal a decel in Q4 in any shape or form.

Will Vu, Analyst, Wolfe Research

Gotcha. That's really helpful context. I wanted to maybe just pivot a little bit and talk about one of your key initiatives, which is the consumer capabilities, specifically the Affirm Card, seeing some pretty notable traction. I think most recently, you guys called out that there were approximately 700,000 plus active card users on the platform. And despite reaching some of that scale, you guys have also talked about expanding that penetration across the broader user base, roughly 18 million users that you guys have now. Could you maybe just talk about some of the initiatives that Affirm is really leaning in on to unlock that incremental user base and ultimately drive growth from here?

Rob O'Hare, SVP Finance

Yes. I mean I think, first and foremost, we're happy with the rate of growth that we have today. We're still doing a lot of work to make sure that the product resonates with consumers, especially as we move from early adopters to sort of more of our core user base, making sure that the product resonates, that consumers understand the product and most importantly, that the product is used and has the frequency that we would expect. So we are mindful of growing too fast or too quickly there. We've been on a really nice clip where we're adding roughly 70,000 cardholders, new cards per month. And that's been pretty sustained over the last six months or so. So we're happy with that trajectory. I wouldn't say that we're foot fully down on the gas yet in terms of growing that base because we want to make sure that we grow responsibly and that we build a durable base using that card. And in a lot of ways, the card is a progression in the next step of our direct-to-consumer offerings. Our first offering was a product that we call Affirm Anywhere, and it's a single-use virtual card. It has some friction to it, but it would allow a consumer to transact and get buy now, pay later functionality at any merchant that accepts Visa. And so we think that the card is a better model for that same use case. It allows offline spend in a pretty meaningful way. It brings a lot more functionality and a lot less friction to the consumer than the Affirm Anywhere product. So we were touching roughly two million consumers with Affirm Anywhere. And so we think that's a pretty attainable milestone for us with Affirm Card just given the increased functionality that card has. And so we're happy with sort of the growth that we have, and we're sort of staring at that as the next milestone.

Will Vu, Analyst, Wolfe Research

Got you. So that basically 70,000 to 100,000 net incremental monthly, that's – you believe that to be sustainable?

Rob O'Hare, SVP Finance

Yes, we do. And it's been sort of a pretty natural rate of inbound and new card users over the last several months, as I mentioned.

Will Vu, Analyst, Wolfe Research

Got you. Maybe just staying on that topic for a second about incremental users. How should we think about some of the incremental costs if there are any associated with driving the adoption here?

Rob O'Hare, SVP Finance

Yes. I mean I think it's important to remember that Affirm Card, much like Affirm Anywhere was too, is really a second or a third use product for consumers. It's not an on-ramp for new consumers to join Affirm. So we're not out actively marketing to a certain CAC level or anything like that. It really is a way for us to deepen the relationship we have with existing consumers. And so for that reason, it's – the cost of onboarding a new card is pretty minimal. It's the cost of the plastic. We're going to mail that card to somebody, right? There's some sort of frictional onetime transaction costs there, but they're pretty small in the context of what we think the value of that consumer is to us long term.

Will Vu, Analyst, Wolfe Research

Got you. Another topic as it relates to the Affirm Card specifically is around spend per active, which subsequently also has seen some pretty notable scale as well. I think most recently, it represented approximately 5% of the total company GMV. And so I was wondering if you can maybe just touch on some of those underlying cohort spend trends that you're seeing associated with this?

Rob O'Hare, SVP Finance

Yeah. I think we've been really encouraged by the data that we've seen there. I mean the average spend per active card user is north of $2,000 per user. And that was true in the early days of the card, which you would expect, because I think our power, our most loyal users were opting into this card first. But even as we've grown to approaching a million cards in use, we're still seeing those levels hang in, in roughly the same range. And if anything, they're actually inflecting upwards. So, I think that's really encouraging data. I think it proves the utility that the card has and just the depth of the relationship we have with those consumers.

Will Vu, Analyst, Wolfe Research

Gotcha. So that one little comment there, the inflection upward. I wanted to maybe just parse that out a little bit more. What does that natural progression of transaction growth ultimately look like for these users? And at the end of the day, where could that like GMV per user top out at?

Rob O'Hare, SVP Finance

Well, I mean I think when you think about the utility that Affirm Card brings to the consumer, it's a hybrid of financing considered purchases like a credit card can be. It captures everyday spend like a debit card. I think it works well in both e-commerce and brick-and-mortar situations. And so there's a lot of utility there. And when you look at the frequency of a U.S. consumer across all of those services, I think we're scratching the surface, right? I think we could grow transaction counts by orders of magnitude in a given year an order of magnitude, at least in a given year and just to catch up to sort of how consumers are transacting with credit and debit in their everyday life. So we're really excited about the potential there. And I think it's still very, very early for us.

Will Vu, Analyst, Wolfe Research

Gotcha. Now I wanted to ask about the competitive environment in particular. As it relates to this, we've heard of other fintechs focusing more of their attention around some of these deposit initiatives as well as consumer BNPL integrations with various card programs. And so I was wondering, how should we think about the evolution of this competitive landscape? And ultimately, what do you think sets Affirm apart from its peers on this basis?

Rob O'Hare, SVP Finance

Yeah. I think one of the things that maybe gets lost when investors are looking at the competitive landscape is just the breadth of products that Affirm offers to a consumer. We can go as low as $35 basket sizes all the way up to $20,000 basket sizes. And with that breadth of order values, we also offer similarly a wide breadth of term lengths, right? We'll go all the way from six weeks at the low end up to 60 months in some cases at the high end, right? And I think that breadth on both of those axes is pretty unique relative to the competitive set in the U.S., which is very pay-in-four focused. And that tends to cluster at the lower end of the average order value and also the shorter end of the duration perspective. And so why that's valuable is that for some of our largest and most diversified partners, I mean companies like Walmart and Amazon, which are selling a variety of goods and a large range of basket sizes, I think it's really important to them that they have a unified consumer experience such that the financing is available to the consumer, whether they're buying a $50 tennis racket or if they decide to buy a new set of tires or two new sets of tires, right? Like we really want that consistency in the checkout flow. And that's what we're able to provide to our merchant partners and to consumers. I think that's pretty unique. And I think you need – there's a lot of complexity behind the scenes that goes into being able to offer longer duration loans from an underwriting perspective, from a capital markets perspective. And those – that's really where we started as a company, and that's where we built a lot of expertise over the years.

Will Vu, Analyst, Wolfe Research

Gotcha. That's really helpful. Wanted to maybe shift gears here and talk about some of the recent partnerships as well as like the B2B opportunity, which does seem to be a pretty exciting emerging opportunity that has been discussed recently. Earlier, you alluded to Shopify really showing some scale, accelerating pretty like over the past few quarters, but also growing at two times the rate of the total company. Maybe just unpack some of the drivers of that strength that you're ultimately seeing here?

Rob O'Hare, SVP Finance

Yeah. I mean I alluded to it, but I mean I think the point I didn't make earlier is really just around the shared vision for the product itself. It's important to remember that what we do within Shop Pay, the Shop Pay Installments product is a product that we co-developed with the Shopify team. So there really is, I think, a sense of shared ownership between both Affirm and Shopify that we don't show up to Shopify as a vendor. We show up as a partner, and they've been great partners of ours. So, I think that is very front and center, and that's a really great characteristic to have in a partnership. And I think that served us well. And there's really great connectivity and collaboration top to bottom across the team. And that allows us to be pretty nimble and to prioritize optimizations that it may have taken a different partner longer to do so, but we've been able to sort of find wins and scale them pretty quickly. And again, it's that spirit of collaboration, I think, has more than anything driven a lot of the success there.

Will Vu, Analyst, Wolfe Research

Gotcha. And on that topic specifically, maybe just remind us how to think about the growth of this opportunity in the context of the broader business.

Rob O'Hare, SVP Finance

For Shopify in particular?

Will Vu, Analyst, Wolfe Research

Yes.

Rob O'Hare, SVP Finance

Yes. I mean I don't – we believe at Affirm that we're not constrained in terms of addressable market or share of card as we refer to it in terms of the share of the merchants' checkouts. I think we're very far from being constrained at any of our large partners, Shopify included. We're only working with Shopify in the U.S., and we definitely endeavor to do more than just that from a geographic perspective. So I think it's very early geographically. And as we mentioned, I mean, the growth at Shopify has been accelerating. So we don't feel like we're getting to a saturation point or anything close to it with Shopify. And again, we have a road map that includes launching, hopefully some new markets with them too.

Will Vu, Analyst, Wolfe Research

Got you. And on a similar note, just curious if there are any other B2B opportunities that Affirm is ultimately able to pursue with different partners. And if so, how have those conversations evolved?

Rob O'Hare, SVP Finance

Sure. In terms of like B2B, meaning participating in a wallet or working with – yeah. I mean I think we – more is more there, right? We were very open to engage with other consumer wallets, with other distribution partners. We think that buy now, pay later is still in the early innings in the U.S. And getting distribution to consumers wherever and however they're choosing to transact is really important for us. So we've announced partnerships with Amazon Pay. We have a partnership that's live with Stripe. We have partnerships that we've announced with Google. And so we're definitely open to working with various wallet providers and various distribution partners.

Will Vu, Analyst, Wolfe Research

Got you. Now I wanted to take a second to talk about profitability, right? This has been a key topic of conversation amongst investors across the broader fintech, especially high growth fintech space. A lot of that continues to revolve around balancing growth versus increasing profitability. And I think in your most recent Investor Day, you guys laid out a pretty eloquent framework on how to think about profitability based on different growth scenarios. And so with that being said, I was wondering if you could maybe share with us some of the puts and takes underscoring that approach to profitable growth. And ultimately, where are you seeing the opportunities to really like flex the model on the expense side?

Rob O'Hare, SVP Finance

Yes. I mean I think we've shown pretty nice operating leverage over the last 12 months or so. I mean certainly, Q2 to Q2, if you look back, we've reduced our cost base. From a non-transaction cost perspective, we've reduced that cost base in absolute dollar terms. And then we've shown accelerating growth across GMV revenue and revenue less transaction costs. So we're printing profitable units. We're printing more of them. And we're doing it with sort of fewer people and fewer resources. And so that model works. I mean we don't really think that it's a huge trade-off or a decision around growth or profitability. I think at our scale point, we've been able to demonstrate pretty nice operating leverage. That said, I think there are some areas that will be net new to the business and will require an investment that's –

that is incremental to the cost base and to the resources we have today. I mean things like expanding internationally are probably the best example. There is a lot that goes into standing up a new market. And we don't get a benefit in certain areas from the scale that we've amassed in the U.S. when we go to the UK. So we want to leave space, and that's why we built the framework the way that we did. We want to leave space to make sure that we're giving an appropriate amount of capital towards investing in things that will pay dividends for us from a growth perspective a year from now, two years from now, three years from now. We want to take a long view there. But right now, I think we're really happy with not only the operating leverage that we've demonstrated, but also the cadence at which we're shipping products and executing on the product road map. I think we don't feel like we've taken our foot on the gas there despite doing it with fewer resources.

Will Vu, Analyst, Wolfe Research

Got you. And then maybe just turning to that discussion around international for a second. You guys have talked about making progress. Looking at the UK in particular, talked about making some progress there. Was curious if you can maybe just give us an update on that and ultimately, what that road map to growth looks like here?

Rob O'Hare, SVP Finance

Yes. I mean I think it's important to remember that like with our scale in the U.S., any new market is going to be small by comparison in the early innings. The U.S. is a large market, and it's a market where we have pretty meaningful share. So that's a good thing. As we look to the UK, I mean, we're heads-down sort of working on the various parts of the product that we'll need for launch. That's a cross-functional effort across go-to-market, across our capital team that manages our funding relationships. It's building a new risk underwriting model, making sure we have the right data points to inform that model and then also building sort of the underlying technology platform to serve the market and the products that we'll offer there. So nothing – no real update to report other than we're still heads-down and hope to be live this calendar year.

Will Vu, Analyst, Wolfe Research

Got you. That's really helpful context. Another topic of conversation that's come up across the broader BNPL space is just thinking about funding. And when we look at what's kind of transpired with Affirm over this past year, part of this interest income growth that you guys all demonstrated was this increase associated with loans held for investment. Maybe just talk about your approach to that. How has this dynamic ultimately evolved? And where could this go ultimately?

Rob O'Hare, SVP Finance

Yes. I mean I think job one for Affirm is to make sure that we fund the business and that we build capacity ahead of the growth that we've seen. And I think the team has done a really great job of navigating what was a pretty choppy funding market, especially in the first half of calendar 2023 and doing it in a way that allowed us to never worry about how we were going to fund the next loan. Like we always had ample capacity, and we've done it with a really great set of funding partners as well. So we're really proud of the capital program that we have and the way that we've sort of diversified the funding sources across warehouse facilities with large banks, across whole loan sale programs that we call forward-flow with a diversity of partners and then also accessing the ABS market at sort of increasingly attractive rates as well. So we like that diversity. I think there's pluses and minuses to each of those funding channels. But moreover, I mean, we also think there's a huge benefit to diversifying across all three. We don't envision that we'd ever be reliant on one or turn one of those funding partners or channels off. We like the diversity that they bring. And in terms of the growth in loans held for investment, I mean some of that is coming with just the growth that we're seeing on the GMV front with consumer adoption and the wins we've had with merchants. And then some of it, too, has been that we're seeing really attractive pricing in the ABS market in our last several deals now. And most of our ABS volume stays on balance sheet, but it's a fixed cost of borrowing and has a pretty – a very high advance rate. So it's a very capital-efficient way for us to fund the business and very cost-efficient way for us to fund the business. So to the extent we're growing loans held for investment because we have more ABS debt against those loans, we think that's a good thing, and that's a really profitable way for us to fund the business.

Will Vu, Analyst, Wolfe Research

Got you. One of the other things that I wanted to touch on was just around credit quality and how that's ultimately evolved, especially in the context of some of the more or less stable trends that we've been seeing amidst this acceleration in GMV. So kind of curious, what are you seeing from the consumer as it relates to this?

Rob O'Hare, SVP Finance

Yes. I mean I think if you go back to sort of the beginning of this inflationary period, I mean, we did – I think like others, we did see signs of early stress and stress on consumers as their purchasing power was being diluted through inflation. And we've course corrected with our credit posture when we saw early signs of stress. I mean I think one thing that maybe is a bit different about Affirm from some other players in the consumer financing realm is that we don't rely on macroeconomic forecasts. We don't build our credit models with those inputs really. I mean we're pretty dialed in to look at repayment data, and we're creating an asset that pays down really, really quickly. Our average loan is roughly 12 months in term length. And the weighted average life of that loan is probably four or five months in most cases. And so the asset turns over very quickly. And so the most important data point for us is, did the cohort of loans that we originated last month, did they make their first payment 30 days later. And if those results are in line with what we would expect, then we don't need to make large changes to our credit posture. If we see signs of stress, we do a lot of work to make sure we isolate and are as surgical as possible about making improvements to the credit posture. And those improvements and those steps that we take can mean a whole host of things. It doesn't always just mean saying no more. It can mean that we add things like down payments to the consumer, asking them to put a little bit more skin in the game upfront. It means that we can shorten term lengths and programs. We may need to ask for more compensation either from the consumer or from the merchant. There's a lot of things that we can do to optimize if we see signs of stress. And I think that model and that cadence, that asset that we're creating, that served us well. And I think that's given us a structural advantage to navigate over the last year or so.

Will Vu, Analyst, Wolfe Research

Got you. Look, I wanted to – before we kind of go into some of the audience Q&A portion, wanted to just kind of wrap up with the question here around, just how are you thinking about a successful year in your view? Like ultimately, what constitutes that? And what would you say you're also most excited about?

Rob O'Hare, SVP Finance

I mean my brain is programmed to think in fiscal years. And so it's Q3 for me as it might be Q1 for everyone else in the room. But I think we're really proud of the operating leverage that we've demonstrated. I think the progress that we've made across Affirm Card, which is arguably one of our biggest product bets that we've made this year. I think just a lot more of the same. A lot of what we've demonstrated in the first half of the year, we'd like to end this fiscal year strong. And we'll be back with some more thoughts on fiscal 2025 after we get through this fiscal year.

Will Vu, Analyst, Wolfe Research

Got you. If anyone has a question, feel free to raise your hand, and we'll bring a mic around.

Q&A

Unknown

Hey, Rob, so the last couple of years, there's two big noticeable trends. One is average order values have declined year-over-year for two years but transactions per active customer gone through the roof. So you're clearly getting a lot of repeat users who are doing smaller transactions, but they're doing a lot more frequently. I know that's in part purposeful for you, but there's probably other things going on. And I'm curious about what's going on. Peloton has come down, but yet you've ramped Shopify and Amazon, perhaps others, what's driving those two trends? And where should it go in the future?

Rob O'Hare, SVP Finance

Yes. I mean I think if you're looking at average order value and in turn frequency, there's definitely a correlation or an inverse correlation between the two. If you're looking at those going back to the IPO, Peloton was roughly one-third of the volume when we went public. And that was skewing average order values up and we think skewing transaction frequency down in turn. And so I think the natural movement to deconcentrate out of Peloton has helped with each of those stats. We love the Peloton program, but it's just – it wasn't sustainable for us to run 30% of our volumes at Peloton. We think in the long run, our volume should index towards e-commerce at large. And I think as we've scaled the Amazon and Shopify programs, the average order values of each of those programs is less than our overall average that we're posting today. And that's brought the average order values down, and it's increased frequency. And so I really think it today is still a function of the merchant programs that are of scale within our portfolio. That's – it's a byproduct of that. And then I think things that we're doing to augment that growth or those trends really are around Affirm Card. Affirm Card is a huge driver of frequency. We see roughly a 4x increase in frequency with card users versus non-card users. So moving into everyday spend will obviously help a lot with frequency. Having a product that consumers can use for brick-and-mortar purchases, I think, increases frequency as well. So those are some of the initiatives. But I would say Card is maybe the single cleanest example of something we're doing to drive more frequency.

Unknown

I guess when we think about the expansion into the UK, and you talked about the competitive environment a little bit being a lot of Pay in 4. Is that specifically to the U.S.? Or is there a little bit of a different dynamic in the UK in terms of what's available from a BNPL perspective?

Rob O'Hare, SVP Finance

Yes. I mean I think in terms of what's available, the UK is a market that can support Pay-in-4 or interest-bearing loans. That's one of the reasons – it's one of the things that we like about it as a potential market for us. That lines up well with the product set that we have in the U.S. But there is – I think it does skew Pay-in-4 heavy, maybe not quite as Pay-in-4 heavy as the U.S. market does, but it is Pay-in-4 heavy from a competition perspective. And we think that's an opportunity, right.

Will Vu, Analyst, Wolfe Research

I think we'll leave it there. Rob, really, really great to have you up on stage with us.

Rob O'Hare, SVP Finance

Yes. Thanks so much for having me.