Fireside Chat with Barclays

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Call Participants

Affirm
Michael Linford, Chief Financial Officer

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Analyst
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Presentation

Zane Keller, Head of Investor Relations

So good day, everyone. Thank you again for dialing into our quarterly fireside chat with our Chief Financial Officer, Michael Linford. We would like to thank Ramsey El-Assal from Barclays for hosting the call with us today.

For those of us -- for those of you that have not used the Say Technologies platform, we encourage you to submit questions ahead of the calls, and we will do our best to address them here. We appreciate the participation and engagement from all of our investors, especially those who submitted questions in advance.

Before we begin, I would like to remind everyone listening that this discussion may contain forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including those set forth in our filings with the SEC, which are available on our Investor Relations website. 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.

And with that, I'll hand it over to Ramsey, who will begin the fireside chat today. Ramsey?

Ramsey El-Assal, Barclays Bank PLC, Research Division

Thanks, Zane. And Michael, thank you so much for the opportunity to host the fireside chat. Looking forward to our conversation today.

There's always a lot to talk about with Affirm, which is a good thing. And maybe we can dive right in with your recent announcement about the partnership with Apple Pay. We've definitely been getting a lot of inbound questions on the topic, so maybe we can start there. But first, just thanks again for the opportunity.

Michael A. Linford, Chief Financial Officer

No, thank you for working with us here. And thanks, everybody, for dialing in. There is a lot to talk about, and that's a really good thing. And it's -- that's the one thing that's pretty constant here at Affirm, is how much we have going on.

So the partnership with Apple Pay that was announced is really exciting for us. It is a furtherance of a lot of things that we've been talking about really going back 1.5 years now about ways in which we're finding other ways to distribute our product.

We talked in November about what we called winning at checkout, that we talked about both the direct merchant integrations and all the other ways the product would be distributed. And we highlighted some of our other wallet partnerships then. And today, we're excited to add another wallet to that list. And it's not just another wallet. It's a pretty massive and important wallet in Apple.

I think investors should think about three benefits here for Affirm. And I know you have a lot of questions and specifics. Some of which we can get to, some of which, honestly, it's too early to talk about.

But the first benefit is it really will be a seamless merchant integration. So, if you think about the challenge of integrating with Affirm today, that usually requires lift on the merchant side. And so a lot of our distribution opportunities, both things that we've done with the large platforms as well as the wallets, have all been around enabling easier paths to adopting and enabling Affirm on the merchant's site. And this is another great example of that.

It's also a really cool chance for us to continue to distribute our product direct-to-consumers. The more we're in wallets, in addition to being integrated on merchant sites, the more consumers have a chance to see us. So you may be a user of a wallet and then see us as an option within that wallet in a way in which you would have never seen us before. And obviously, the bigger the wallet and the more use that wallet is, the more impactful it is to us in terms of a chance to give our consumers, who know us and love us, another chance to see us. And alongside that is a chance to see more users that we wouldn't see otherwise.

And so we think, in a lot of ways, this opens up both the opportunities for consumers to use us and the number of consumers we can get to, which really is summarized maybe best as a pretty big addressable market opening up for us here that we wouldn't get before. And that's consistent with all of our strategy with wallet distribution right now.

Ramsey El-Assal, Barclays Bank PLC, Research Division

I see. I mean, it sounds like obviously a super exciting partnership. How did you do it? What were the differentiating kind of factors that had Apple kind of selecting you guys versus others?

Michael A. Linford. Chief Financial Officer

Yes, I think you'll have to ask Apple that question. I don't know that I can tell you why they picked us. But I can speak to why I think our largest enterprises do prefer Affirm. And this would be another example of us having credibility as a fintech company, having credibility with some of the largest technology and commerce platforms out there. And it comes down to a number of things.

I think first and foremost, we're a product- and engineering-led company, and product- and engineering- and technology-oriented companies like working with people like us because we can speak their language, we can move at their speed, we can understand their concerns and requirements. And we're generally pretty good about getting to those.

That's obviously hugely important when you're working with the world's largest retailers they care a lot about reliability and service levels. And they also care about how you serve the customer. And our product-led culture and the way in which we put the consumer first really matters a lot to the biggest brands out there. They want to make sure that, when products like ours are being offered, they're going to be proud of the consumer experiences they get. The consumers are going to have good experiences with our product.

And we invest so much energy there, both in terms of things that we do to the product that make it work without the stuff that would be embarrassing to them. So for example, we don't have deferred interest. We don't charge late fees. We don't have the same tricks that exist in a lot of other BNPL products.

But then also just the experience itself, how slick the checkout is, how certain the consumer is when they check out. Sometimes these products are trying to deliver in a way where you have to go do 30 other things to get the product to work for you. For example, a lot of the credit card offers, it's a common thing. And the fact that we're able to just to offer a straight, transparent, very simple and easy to understand offer to the consumer is something that these large brands are willing to put their name behind.

And then I think lastly to be said, that our breadth of product really matters here. If we were only able to do one thing, it's easier to say, well we could do that ourselves or we could find somebody to do that one thing, the more commoditized it gets.

So if we just did Pay in 4, I think it'd be harder for us to win the largest enterprise partnerships. But the idea that we can do Pay in 4, we can do now Pay in 2, or pay in really any period of time, we can spread out the loans over a long amount of months or a pretty short amount of months. We can charge interest, we can charge no interest, we can charge low fixed interest. That huge diversity of product offerings means that we can fill more use cases, and gives, I think, our largest partners a higher desire to integrate us because they know that we can actually serve more of their transaction types, and that working with us has a higher payback than if they work with a smaller player who only does one thing.

Ramsey El-Assal, Barclays Bank PLC, Research Division

Interesting. So the breadth of products is a differentiator, basically. Initially when this partnership was announced, I got some questions about the relationship between like Affirm Card and the wallet integration. So maybe just to clarify, do consumers need Affirm Card to use Affirm in wallets, presumably this one as well, that you're integrated with? Or how does that work?

Michael A. Linford, Chief Financial Officer

Yes. So when we think about wallet integrations, that's separate from the integration a consumer might be able to get with a card. So no, those are separate things. When we integrate into the wallet, that's us getting the wallet to directly initiate Affirm transactions as opposed to looking like a Visa transaction to the wallet, that then behind it becomes an Affirm transaction.

And so we think about the latter, just the card version as, honestly, it's already integrated everywhere. I'm exaggerating a little bit, I'm sure there's cases where it's not. But you can put your Affirm Card, and I certainly do, in any number of wallets today and it works great.

But that is different than when I'm checking out with one of these wallets. Take Shop Pay Installments, is a really good example. I can still use my Affirm Card and Shop Pay and it'll look like a Visa card to Shop Pay. However, in the Shop Pay experience, I'm also able to take out a Shop Pay Installments loan, which is obviously delivered by us.

And that is that second experience that's unique when we think about integrating with the wallets. That's the one that becomes really valuable because it's a distribution that's wider. You don't have to have the Affirm Card. New users get to see it, which means we're tracking and talking to new consumers. And all this is done usually with very little merchant lift at all.

Ramsey El-Assal, Barclays Bank PLC, Research Division

And another question along similar lines. Do the wallet partnerships, is there any tension sort of between the wallet partnerships in the Affirm Card? Meaning, can any of the wallet partnerships replace a Affirm Card? Or how does the card kind of coexist alongside the wallet partners?

Michael A. Linford, Chief Financial Officer

Yes. Maybe just to generally address it. We think we're so early in the adoption of our category and the distribution of the product that, when we think about potential conflicts in the channel, we think that's a downstream problem and we even embrace it. We think about it as it'd be awesome if Affirm was directly integrated with a merchant and there were multiple wallets offering Affirm and the Affirm user had a card. Because what we find is that those incremental distribution opportunities are less likely – the cannibalization effect is outweighed by the value of a second or third distribution even on one merchant site.

And so we don't think about these things as being at all in tension yet. And that's mostly just due to the relative maturity of the product in the industry. Maybe 10 years down the road when we're 15% of U.S. e-commerce, that may change. But until we get to that point, there's just so much growth opportunity, those conflicts don't really come up yet.

So when we think about the card, we think about it as another way to serve great repeat usage for Affirm users. We don't think about it as taking away from anything, besides other direct-to-consumer distributions that we've done.

Ramsey El-Assal, Barclays Bank PLC, Research Division

Okay. And then getting a little bit into the sort of experience and maybe the technical side a little bit. How do your wallet partnerships work with merchants that don't already have the commercial relationship with Affirm? Will consumers obviously still be able to use a Affirm at these merchants? Or how does it work?

Michael A. Linford, Chief Financial Officer

Yes, I should make sure I'm really clear on this. I'm going to speak to the wallet approach generally because the specifics are obviously still very much in flight and subject to a lot of change. And I think, in general, the approach changes over time. And so I'll talk to how it works and what the vision is, but just acknowledge that we're still building one of those products right now. And so I don't want folks to assume too much too literally.

But the basic idea is that the deal with the wallet, the distribution partnership with the wallet, is a chance for us to extend the surface area that Affirm is available on. And that almost always, in an ideal case, stands alongside or in addition to direct integrations with merchants. It's usually never in conflict with.

But if it's in conflict with, it's important that from our perspective, that there's performance parity, meaning that the consumer experience, that offers available to the consumer, et cetera, are uniform. And those are the situations where we'd be more comfortable only having one path. But in general, our preference is that the consumers are able to use Affirm through the wallets and able to use Affirm directly on the sites, and again, through the cards.

Obviously, when we talk to merchants, what we'd love them to do is help us put similar commercials in place for all transactions. So that's the best thing for the user. But we're conscious of the fact that the wallets have a distribution that's just substantially bigger than what we have today, and that's part of the reason why it's interesting.

And so if we're not able to get to the full tail, that's okay because the wallets allows the merchants to use the product without having to have a contract and all of the associated commercials negotiated directly with Affirm.

Ramsey El-Assal, Barclays Bank PLC, Research Division

I see. From my side, it's hard not to kind of dream about the future here. So I'm going to ask you a couple of questions that you may or may not be able to comment on. But the announcement specifically indicated the integration will only support online transactions for users in the U.S. So the two other vectors that I'm thinking about in terms of maybe some future expansion opportunities might be off-line transactions and/or transactions outside the U.S. So I'm just curious if you have any comment on those ideas.

Michael A. Linford, Chief Financial Officer

I'm reminded a little bit about the conversations we have any time we announce a big partner. And we talk about where we start with that partner. And folks like you, and to be honest, the rest of the team here too at Affirm, say, "Okay. But what about the next thing? Because that's bigger and exciting. And what's down the road and how could it be bigger?"

And it's really important that we don't put the cart before the horse. We don't have a product live yet. We should not be focusing on where we will go after the thing that isn't even done yet is live. And so we're focused on doing that first step. But if you look at almost all of our partnerships that have any scale to them, they start off with one thing and they expand over time because we deliver real value to the merchant, to the consumer, to the partner. And that's our North Star. We always say that our North Star is making sure the merchant wins, making sure the consumer wins. And if we do that, then, of course, these partners want us to do more with them.

And I looked up some of our partnerships. So our biggest partnerships are really proof points for that. The growth rate for our largest partners last quarter was significantly higher than the company growth rate, which was obviously many multiples of U.S. e-commerce. And that was because despite those partnerships being 3 and 4 years old, we're finding more and more ways to grow with them.

Sometimes that's incrementally new things like new geographies. Sometimes it's new features, it's availability or applicability on their platform. Sometimes it's just good old fashioned improvements in conversion. But all of that together is the opportunity. And so when I think about the opportunity in wallets, I don't constrain it to where we're currently at. I define that opportunity as everything that wallet does. The timeline that we get to address everything, that's the thing that's a lot less certain.

And I think the reason for some humility here is we don't even have our product live yet, so we're going to focus on getting the first step live, making sure that we're proud of that experience, making sure consumers actually adopt it and love it, making sure it gets real traction. And then I think it's fair to ask, where do these wallets go from there?

And it's not -- again, it's not just the one we started the conversation off with. I think there's a similar path going on now for all of our wallets. This is certainly not unique to just this wallet, although this one is obviously very special to us.

Ramsey El-Assal, Barclays Bank PLC, Research Division

I see. Your 8-K mentioned that the solution will be rolled out later this year, but we're not going to have a material impact, P&L impact, in fiscal '25. I guess give us a little more color on that. What is -- what will the rollout look like? Why won't it have a material impact on '25?

Michael A. Linford, Chief Financial Officer

Yes. A couple of things to think about. One, most things we do have a very controlled and thoughtful rollout plan because we don't like, from a risk standpoint, anything happening that we can't keep our arms around. So we're always measured in how we roll things out. We want to move quickly, of course, but we want to be very thoughtful. There's a lot more downside in messing stuff up than upside getting it right with these things. And so it's important to us that we do it well.

Secondly, we're pretty big now. We're certainly nowhere near the size of some of these partners that we're onboarding, but we're really big. And so for things to be material in the near term, they have to also be really, really big, really, really quickly. And I think we're mindful of the fact that this product is still being developed and it's going to take a little while for that to be live. And then it's going to -- we'll be very thoughtful about the rollout. And that's what leads us to say we don't expect it to be super material in the near term.

That shouldn't take away from the conviction that we have around this and all the other opportunities as being very material in the long run. I think in the long run, this will matter a whole lot, just like with Affirm Card. If you remember with Affirm Card, we told everybody that it wasn't going to be material early. And obviously, it's increasing substantially in its materiality to our business, and we would expect it to continue to be material into the future. And I think it's very similar here, which is the rollout is going to be thoughtful and measured because we're good risk managers.

None of that takes away from what we evaluate as this being a pretty strategic piece in our total distribution and a key part of achieving the growth formula that we laid out for investors last November. We talked a lot about winning at checkout. This is a really critical part of that. And part of the reason we feel confident in compounding at the rates that are multiples of U.S. e-commerce growth is because we have distribution opportunities like this that we're working on.

Ramsey El-Assal, Barclays Bank PLC, Research Division

It sounds to me, paraphrasing your prior answer, is just that investors have had an experience of you guys rolling out some pretty substantial partners already. So there is some kind of precedent in terms of the long-term ramp and the success of the execution, candidly, and the integration. So I think that's probably a good thing at the end of the day.

Michael A. Linford, Chief Financial Officer

And we do a pretty good job at Affirm of resisting the short-term, long-term trade-off that is a negative one. We don't try to make it bigger early just so it's big and we feel like we've made real traction. We're really thoughtful around scaling it responsibly. And that approach has really paid off. As you remember, our business is really complicated, and we have so many people in our ecosystem that need -- that we need in order to function well, capital markets being a really good example.

And so we don't want to do is create assets that deviate from our desired economic profile in a manner with which we can no longer execute in the capital markets. And we won't. Here, we feel really good about that. But that's a good example for a reason why we're always very thoughtful and measured here. And still growing very quickly, of course, but we're thoughtful and measured about these ramps.

And so we don't want to or expect this thing to be material in the first weeks and months after launch. But then that takes away from its long-term scale. I fully expect this is a key part of our growth formula for the years ahead.

Ramsey El-Assal, Barclays Bank PLC, Research Division

And keeping in mind you just sort of reminded us that you're a bigger company now, and so individual deals might not have the same contribution factors it might have some years ago. But do you expect this deal to have any meaningful impact on your overall unit economics? Is your long-term 3% to 4% RLTC as a percentage of GMV target altered all? Still valid? What's your thoughts there?

Michael A. Linford, Chief Financial Officer

Yes. We continue to expect 3% to 4% long term. When we give that kind of guidance, we're thinking about all the factors that go into that, including what our distribution is in the near term, midterm, how we're negotiating, what our product road map is. So when we say that, we're definitely taking into account these kinds of distribution.

I think it is the case that, with any new program, it may not be at the scaled level of economics in its first couple of months or quarters, and that's totally normal and it's certainly what we saw when we rolled out programs like we did with Shopify.

But the -- there's nothing we view structurally about how we're going to market with this distribution approach that would change our long-term margin structure in the business. And that is really, again, reflective of just how many points of control we have in our business. Our product isn't just one thing. And so because we have so many different ways to create assets that have value, we can find a way to monetize that intelligently. And that's true no matter which the distribution path that we're taking.

Ramsey El-Assal, Barclays Bank PLC, Research Division

Okay. I'm going to pivot over to some non-Apple questions now since we've picked that one pretty clean, I think. What can you share with investors as an update since you last reported earnings in May? And more broadly, I think the second part of that question is, what is consumer health and the consumer spending environment look to you guys at this point?

Michael A. Linford, Chief Financial Officer

Yes. I think trains are continuing to be on time, which is how we're talking about it. Our outcomes are in line with expectations. We feel like the consumer is still benefiting from really robust employment and strong wages. We talk about savings rate as being a bit of a concern out there.

I don't think that any of us -- we don't certainly have a macroeconomic house view or anything of the sort. It's just not how we run the business. But I do think the data that we look at suggests the consumer is still actively engaged in the economy and employed such that they can fulfill their obligations.

I think the rate environment continues to be really volatile. And I would expect that to be the case for the time being, with I think it netting out to what we've been talking about, which is this business is pretty well positioned for a higher-for-longer environment.

We've done all the work we need to, to get our units very strong in this environment. And feel like that will continue throughout the higher-for-longer period. So from a rates perspective, we're certainly not looking for any material changes in terms of how we think about running the business. And so the consumer is relatively healthy, rate environment is, while volatile, the rate curve will move around quite a bit on us, the net of it has been a trend towards sustainably higher rates. And those two things together kind of say that business as usual and really nothing has changed in our business.

And certainly, nothing has changed with respect to consumer demand. We benefit a lot from the fact that consumers are really voting with their wallets on a new payment method. Consumers are choosing to put the cards down and pick up Affirm. And so a lot of the factors on the margin that you hear some of the other unsecured consumer credit players talk about, we just don't see because we're benefiting from a secular change that masks any of the stuff that's on the margin.

When our secular growth rate slows down and we're more tethered to the high single-digit growth rates, I do think you're going to have us express some of those things. But right now, it's just masked by the fact that we've got pretty strong adoption of the category overall.

Ramsey El-Assal, Barclays Bank PLC, Research Division

That makes a ton of sense. Now I'm going to take a related question from the Say Platform from someone named Justin E. And the question is as follows, “Is growing consumer debt a concern? And if so, how do you plan to address it with your products? And then same question on consumer credit. It feels like employment is hanging in, inflation lower on a year-over-year basis. Any changes in credit performance trends to call out?”

Michael A. Linford, Chief Financial Officer

Yes. Good question. Thank you, Justin. The second one first is really no changes to call out. Employment is holding up. And the consumer -- or the American consumer, is spending, fully employed or mostly employed, able to find work. And so feel really good about that.

On the consumer debt side, a couple of things to think about. One, our product is designed to get consumers out of debt very quickly. This is a fact that I think a lot of people skip over. It's part of my blog post I wrote on the various news articles on phantom debt. Our product amortizes very, very quickly. It forces consumers to pay back on a very quick and fixed schedule. Because it isn't a revolving line because the payment schedules are fixed, there's a huge amount of velocity to it.

In the capital market sense, that's really attractive to capital markets investors because that means that the assets -- the risk profile is advantageous because it moves so quickly. And for consumers, it's difficult for you to have a lot of exposure for a long time because every month you're paying back a pretty meaningful portion of the obligation. And so it's engineered in a way, when users use our products, to reduce the total obligations very, very quickly.

Balances on credit cards have a funny way of sticking around at the same levels. Affirm balances go down, definitionally, very, very quickly. I like to talk about one of my favorite stats is, on the order of 40%, 45% of the balances we originate in a quarter are fully paid back to us by the time we report earnings. And so quarter happens, roughly 6 weeks later we're talking to the market about earnings, 40% to 45% of loans are fully paid back. And so when you think about that, the consumer is -- it just moves very, very, very quickly .6 weeks is a long time in our business. 40% of balances, I should say. So as a result, we don't think our product is actually the solution, not any cause of the problem.

Now you asked me the macro question. Okay. So fine, Affirm is good, but are you concerned with what's going on away from Affirm and the consumer more broadly?

I think that we like to look at any level of unsecured consumer debt against either PCE or some other inflation-adjusted measure or against their wages. And all those indications point to a return to pre-COVID trends much more so than anything that we would be particularly alarmed with today.

With the caveat being that's like one of the core things we look at when we underwrite consumers. We look at their obligations away from Affirm. One of the reasons we do so much underwriting on every transaction is because we want to understand what those consumers have in their financial life and their obligations. And when we have to tell a consumer no, it's because we're worried that their obligations are too high away from us. And that's a thing that has been true since day 1. And we would look at the macro situation and say, feels a lot more like pre-COVID than it does to feel like it's higher or lower. I think the first derivative for a lot of folks looks high because we were coming out of such a surplus environment. And I think that's more of a reversion to the mean than anything else with the consumer away from us.

Ramsey El-Assal, Barclays Bank PLC, Research Division

Okay. You mentioned earlier that the secular tailwinds underpinning the business suggest that there's a lot of consumer demand here that -- new customers coming into the top of the funnel, effectively.

Give us your updated thoughts. It's hard for investors to get that kind of market-wide view about what inning we're in and where does buy now, pay later stand as a percentage of spend or as percent of e-commerce however you're looking at it. But give us your view about sort of where we are in the adoption cycle of buy now, pay later in the U.S.

Michael A. Linford, Chief Financial Officer

Yes. Great question. I think the rate of adoption has been remarkably constant for the past 5 years. I think the amount of excitement or whatever the opposite of excitement is for the category has moved a lot more than the underlying data would suggest. In other words, I think investors, and frankly, folks like us here on the line, feel like it's been a lot more volatile than the consumer would tell you if you go talk to the consumer on the street.

If you could talk to them on the street, you'll see that this is part of a pretty steady and consistent trend where consumers understand their credit situation very well. It's a bit of a misconception I ran into recently which I thought was really interesting. An investor – a well-meaning investor said these consumers of yours, they're not very credit-savvy. And I think it's a horrible misconception. These consumers are some of the most credit-savvy consumers out there.

I'd like to point out that, if you transact on your credit card, you don't carry a balance, you don't know where your APR is and you don't even know what your balance is. It just comes out of your account. And a lot of folks who don't carry a balance assume that means that they're more sophisticated on credit.

And it's true that they spend less for credit, that's undeniable. But they don't understand the inner workings and how credit cards work and the trade-offs around purchase decisions. And consumers who actually pay it and that's part of their financial life, they're very aware. And our consumers tend to be very, very aware and credit-savvy.

And as a result, they understand the value of what we provide, it has features in it that are really attractive to them, that gives them control because the payment schedule is fixed and certain. We can express the total cost of the purchase in a dollar amount upfront with that 0 because it's a true 0% Affirm loan or an APR loan, they know the cost with immutable certainty upfront. So it's super valuable to them.

And those trends are continuing. The value of this product in someone's financial life is a trend that's been pretty consistent and I think going to continue to grow. I think that is why the industry is growing as quickly as it is and is why we have been able to grow as quickly as it is.

The interesting thing maybe though, is just how the competition landscape has ebbed and flowed, and that does change the market because it's a small-enough market still where an entrant or an exit from the market can have a pretty big effect on the market's growth rate. I think that's been really interesting for us to watch. Where you have, again, the relative excitement in the industry driving some people into the category before they realize just how hard it is and how difficult it is to do this.

And then to let them -- some of them retreat and then some double down. And I think where we are now is kind of right back to a late level of competitive intensity that is consistent with a good long-term growing category as opposed to a potentially overly excited category, which I think we got to maybe a few years ago.

And that's why if you look at Affirm's GMV growth rate now, I think we've been growing in the roughly 30% context for a minute or two. And I think that is a really high growth rate for a category and a company our size and scale. And it's why I think it's now beginning to attract the attention of the more traditional FIs, who I think 5 years ago, were dismissive of the category. A lot of technology companies came in first, and I know a lot of FIs have woken up to the need to be able to address this.

And so in the competitive landscape, ebbs and flows. But again, I don't think, in the eyes of the consumer, any of the volatility that we think is there has really been there. It's been a steady adoption of the category. And if you go back and look at the estimates we had and the market had around adoption of the category, again, it's been remarkably consistent with a slow and steady adoption and share shift towards this category. And we think that is still going to start.

And so the answer to the innings question, I don't know. I don't know. We don't have certainty of where we'll get to and when. That just isn't a knowable thing. But we know that the sheer size of consumer debt, the sheer size of consumer credit purchases in this country are so large that it's still scratching the surface. And so there's a lot of road to go.

We always contextualize Affirm's opportunity and progress in terms of its percentage of U.S. e-commerce, which is now growing pretty significantly. We're really proud of how much of U.S. e-commerce that we are, and that's our primary market.

We also acknowledge that offline is still a much bigger part of the economy. And there, we're not even a rounding error and there's so much opportunity there. And so whether it's things like the Affirm Card or other wallet distribution opportunities over time will open that up, we feel that would say, if you're judging an opportunity online and offline, that game hasn't even started yet. And if you're judging the opportunity specifically in the online case, the game is clearly being played, but by no means are we anywhere near the asymptote of where we think the market begins to slow down in its adoption.

Ramsey El-Assal, Barclays Bank PLC, Research Division

Okay. Let me take another question that was submitted previously on the Say Platform. So Josiah H. asks. “How has the partnership with Amazon affected Affirm's expectations of growth?” So I guess the idea is here, you have a lot of great partnerships, and I don't want to leave anybody out. Having we talked about Apple quite a bit. A lot of partners, including Amazon. Do you feel these improved your growth potential over time? I guess that's sort of the question.

Michael A. Linford, Chief Financial Officer

Yes. I think our business model is a lot of things, but it has remained pretty consistent on the idea that we work with merchants and platforms and now even wallets, call it a platform if you like. We work with them in order to serve their consumers. We also serve consumers directly in our app. And the two work together. They aren't separate from one another and you can't do one without the other.

So our ability to build a network where consumers really understand and shop across our merchant base, alongside our ability to serve those merchants -- or those consumers directly away from merchants we have integrated relationships with, they help each other.

And to make it like super explicit. When we go talk to a new merchant, we show them how much business we're doing with them already in our direct-to-consumer environment. And sometimes it's material. Like sometimes we're doing points of their share of business directly to our consumers without an integrated relationship.

And when that happens, those merchants are forced to come to terms with the fact that the product means something to their consumer. And that's an incredible way to add adoption of our product to the merchant site. It's a large part of the reason why now there's near-uniform distribution of the major credit card providers because no merchant wants to say no to one of the credit card brands they understand is a meaningful number across all of them.

I think merchants are increasingly understanding that and the more work we do direct-to-consumer validates that, alongside the largest partners. I think large partners really do want us to provide a service to them and to their consumers that they either can't provide or they think that we're better than others providing. And we definitely partner with the largest, and we're proud about that. And yet there's a lot left.

A thing that I think a lot of folks push us on is, okay, you've locked up -- there's only one Amazon in the world, right? You've already got them. So what's next?

And the first point is, I mean, a lot of Amazon left to do. It's a very large merchant for us to do. But the second is, there's still a large amount of both online and offline commerce that we're not touching today, and those distribution opportunities really do help us.

And so the work that is in front of us is to continue to win new distribution, and we're going to keep doing that online and offline. And we're going to keep helping everybody out. And in turn, that will allow us to delight more consumers on these merchant sites, which gives us a chance to reengage them directly in our app afterwards or find them again throughout the ecosystem and continue to scale the network. And so yes, Josiah, really important. That is -- it's a really critical part of our success and will continue to be. And while when we talk about winning, we talk about making sure the merchant is winning, too. It's important to us that the merchants' outcomes are really good because that's a part of our total strategy.

Ramsey El-Assal, Barclays Bank PLC, Research Division

I want to ask about customer engagement in a second. But there's a question regarding your capital strategy that I've been wanting to ask you, so I might as well do it here.

The question is sort of about balancing growth and capital efficiency on the one hand. And on the other hand, I just -- I'm curious. You guys have done such a good job with this diversified funding model, it scaled very nicely with your business. As you scale, does your capital strategy or your funding mix change? Or is this something where you think that the capital strategy and structure you have now just can kind of scale in perpetuity effectively? Or not in perpetuity, but along with the growth of your business? Fast forwarding a few years, if you know what I mean.

Michael A. Linford, Chief Financial Officer

Yes. I think a couple of things. We feel really good about the track record we've had so far in the capital markets. You've seen us be very active in the ABS market with both revolving deals and term deals and they've been really well-received. Our team has executed at the highest levels internally with the assets we're creating and the control of credit that we have, and that's showing up with the capital markets giving us a lot of excitement and support.

And so we feel that will continue and feel like those markets remain open to us. There are things we need to do to continue to enable the next levels of scale, which we're doing. But we feel like the environment is just extremely conducive to us right now. And there's a real lesson that we've learned that is and should be obvious to everybody, but it's really worth repeating, which is that disciplined approach I talked about in scaling new things, that disciplined approach. That is what gives you the ability to have capital not be a constraint in our business.

Capital hasn't been a constraint for Affirm. It has scaled really nicely because we have been so disciplined. And that is a truism that we knew well before any of the past 3 years of volatility, but it's certainly written in stone now. And we're going to continue to be very disciplined while still scaling the network, which we think you can do both. We think it's a false idea that you can't do both. So we think the ABS market is obviously very big and has a lot of room to scale and we're going to keep executing there.

On the forward flow side, we feel like there are incrementally more opportunities. We've been talking a lot about whether it's the large insurance players directly or the impact of private credit had in the total market. Those are creating pockets of opportunity for us that we think are outsized chances to continue to scale that program in a way that's -- frankly, while it's more bilateral and therefore sometimes can take longer and may be less efficient in the market sense of you can't just go to market and do a deal and you got to work with a partner to scale it, but can yield really stable, sticky, really large capital. And the team is hard at work there, and we feel good about scaling that channel in the near term as well.

But the only channel you're not going to see us talk a lot about is the bank warehouse funding side. Those are really important funding channels for us to manage liquidity in between and throughout the quarters, and even as a safety valve or a shock absorber to volatility in our loan book. But we certainly don't think that's the channel that represents the majority of Affirm funding at scale.

Affirm funding at scale is mostly going to be in consolidated, deconsolidated ABS deals and our forward flow partnerships and any permutations and iterations that those things take, which we're working on to enable the next points of scale. For what it's worth, our capital team is hard at work really scaling the capital platform to that $50 billion GMV scale we talked about in November. I don't know that I can speak much beyond that. I think that's definitely long term. But that -- it really means the next several years' worth of work and focus of the business is what we're enabling scale for. And feel really confident around our ability to access that capital, conditioned on us continuing to do the discipline that I mentioned before.

Ramsey El-Assal, Barclays Bank PLC, Research Division

Great. And changing channels a little bit, back to kind of customer engagement. Last quarter, I noticed that you guys saw the largest- ever percentage of your transactions coming from repeat users. I guess, give us your updated view on the algorithm, the growth algorithm in terms of the contribution from new versus existing users?

Michael A. Linford, Chief Financial Officer

Yes. We've not given any framework, and I can't now around the math. But philosophically, the areas of highest risk for us are always new users. We're really good underwriters. We are really good risk managers from my perspective. But we know less about a consumer if we've never transacted with them. And once we've transacted with them, we know quite a bit about them. And certainly, once we transact with them several times, they become a very different level of risk. And so I think a large part of the past 1.5 years or so of heavy focus on repeat users is a reflection of a more conservative approach to credit that we've been taking. And that's maybe the slower part of that. The other thing it's really good is, of course, we want more frequency. And users engaging on our platform more are stickier and more valuable to us. And so it's not that repeats aren't a great thing. We're very happy with that. We want to continue to drive repeats. We just also want to be able to add more new users to the platform. And there's a lot of ways that we think we can do that even within the credit environment that we're in. And I think it's going to become and will remain a pretty important focus area for the company.

And we talked about distribution opportunities. That's one of the most important things for us, is the more well-distributed our product is, the more chances we have to encounter those consumers. And equally so is reengaging them. One of the things we've talked about a lot is just the fact that we've actually seen 40 million to 50 million users, even though only 18 million are active in the past 12 months. And it will show up as a repeat transaction even if the user has been stale for 2 years.

And so we think about that reengagement as being really valuable and super important for us to do, and as big an opportunity maybe as the next 20 million who have never tried Affirm. But clearly, growing users, active users on the platform, is a priority for us and something that's pretty important.

Ramsey El-Assal, Barclays Bank PLC, Research Division

I see. The Affirm Card is resonating with consumers. We had our conference a couple of weeks ago and that installment credit card category, and the Affirm Card in particular, came up quite a bit. It seems like it's a thing. So give us an update there. Where do things stand on the product in terms of anything you can share on adoption or how you guys are thinking about it at this point?

Michael A. Linford, Chief Financial Officer

It's definitely a thing. It wasn't a thing a few years ago. It's a thing now, and we'd expect it to be a thing that isn't just us doing it. If you think about the announcement with Visa Flex and you think about the core thing that we're trying to solve for consumers, I think we definitely hit a nerve here.

And so we're proud of that, but we're not resting on it. We know that, like with anything we do, when we show the world something interesting and novel. It gets copied very quickly. And so we're fully expecting that to be the case, which means that we've got to stay ahead of the curve.

For the product itself right now, it's very -- again, this is such a boring answer, but it's true, that we're just kind of on time here. We're continuing to scale the card thoughtfully. The rate of new card is growing. The cohort-ized spend levels are in line with where we want them to be. And credit and unit economic performance is very good today, and that's before we even layer in some of the benefits that we may get if and when Visa Flex is actually live. And so there's -- we feel like this is a great business. It's still scaling alongside our other direct-to-consumer product, the Affirm Virtual Card. I think at some point, we may choose to focus everybody into one channel. But for now, we're continuing to scale and feel like the adoption is super-strong there.

There is mountain of work yet to do, as proud as we are, of all of that. We know that there's user experience pain points that have to get addressed. Unexpected declines, those have to be addressed. Consumers need to have an understanding of how the card works because it is new, it's different. And while we're the only one with this idea out there, it's going to take a minute for users to really understand the difference between a credit card, a debit card, and this card. And working towards that consumer cognition understanding of how it works. It's really, really important for us to hit the next level of scale, and that's what the team is focused on. But we're doing that while it's scaling pretty quickly. So it's not like we're -- we've paused anything. We just -- we're literally, I think, improving the airplane as it's flying.

And again, we're doing all that while we're still scaling that core merchant business. And that's maybe the thing I'm most proud of what's going on in Affirm right now, is the next quantum of growth and value, I think, is being built while we're still very much scaling the core thing in a way that's really attractive.

And so whether it's a distribution opportunity with the new merchant platform or wallet, that business is going to continue to scale. And the end of all that work should just be more fuel for the card continuing to scale behind it.

Ramsey El-Assal, Barclays Bank PLC, Research Division

Let me pull another question from the Say Platform from Justin P., a related question, which is as follows.

“What is Affirm's product road map for the Affirm Card? Is it a rewards cash-back program on the table? When might that roll out?”

Michael A. Linford, Chief Financial Officer

Yes. We know we need to do more than we've done. We've done a lot of experimentation with various rewards, constructs. And it's too early for us to declare we know exactly what it's going to look like. So we know we need to do something, and we know the things that we have done today maybe aren't the right things yet.

One thing that we do know will be part of the mix regardless of where we end up is this idea of Affirm's product offerings improving over time. And for any Affirm Card users out there, you'll know that we will open up special product offers depending upon your level of usage on the platform. So in some experiment groups, if you're part of them, you might see, if you hit your third paid out transaction, you might get a special pay-over-time offer to you that it looks like paying 6 installments and they're all 0%, as an example. Those are just examples, just experiments, but those are really good ideas of rewarding loyalty without being transactional with a dollar amount or a point scheme.

We think that's part of the game no matter what. Whether or not it's also something on top of that, I think, is what we're still iterating on. But for sure, making sure that users who use us have a rewarding experience over time, and that they're -- that we reinvest some of the value they create for us back in better offers for them and something that's really important to us, and that's true loyalty.

And in a lot of ways, I think a lot of about how Affirm thinks about things, like we're just, like anything that feels too gimmick-y or games-y, it's hard for us to get a lot of energy about. So things that are more direct to the consumer, here's how your product is getting more valuable in exchange for being loyal to us and using those more often, is something we have a lot of energy for. But the caveat being we definitely know we have to do more. And so the team is continuing to work on that.

Ramsey El-Assal, Barclays Bank PLC, Research Division

Okay. We only have about 5 minutes left here, but I wanted to ask about the U.K. rollout. That's something you guys have discussed. Give us your thoughts about -- update us on it. Is the project on track?

And then also maybe if you could comment on, what does the product suite look like over there initially? And is part of the distribution opportunities following U.S. distributor -- distribution partners over there? Or is it something where you need to build out your own kind of distribution strategy over there?

Michael A. Linford, Chief Financial Officer

We're very excited thinking about things that won't be material early but will be material over time. I think U.K. is a great example.
New market entry for us is a theme that starts small and thoughtful and builds over time. And entering the U.K., certainly how we're thinking about it.

The -- to answer your second question first in terms of distribution, it's -- the answer is both. We think it's difficult to get to a market without some friendly faces, some track records and pieces of scale that help you get going. But we made the decision almost 2 years ago now to make sure that we invested in the sales and go-to-market teams locally. And they've been hard at work talking to merchants on the ground there about ways in which we can help them out. And I wouldn't expect anything super big super early. It's going to take some time.

But I think that the idea of it being one way or the other is that the approach -- take our approach of we're going to partner with our U.S. partners where they want to partner with us there. And we're going to make sure we try to be as relevant to the local U.K.
merchant base as possible.

Qualitatively, the conversations have been awesome. I think the merchants there are really excited to have an alternative in the market they haven't had before. They know what we do is different. And I think it's going to be really exciting once we're there and that proves out. Again, we don't have a product live yet, so there's a lot of important cart and horse to be a sequence there. But we need to build the product, but we're building it. And we do expect to have transactions flowing through the pipes this year, which is pretty cool. I think that will probably mean more of a next year conversation around how it's scaling and ramping. Right now, it's about getting it in place with both existing partners. And we're hoping to have some really great U.K. merchants alongside that.

So don't expect it to be super big early because these things do need a lot of patience. They will not be pull the switch, and then it grows very quickly. It's a thing that you make sure you're very thoughtful on. It's brand new purchase to credit underwriting and servicing and all the things you have to build in a local market. And yet, the conversations we've had qualitatively with partners there, it's been really well received. I think folks are really excited to have Affirm in the market.

Ramsey El-Assal, Barclays Bank PLC, Research Division

Fantastic. We just have a couple of minutes left, so I'm going to ask you an impossibly large question. No, I'm just kidding. I wanted to get your very brief response. And I think this might be something you guys have touched on. But there was that headline and/or Bloomberg article about buy now pay later as a category representing systemic economic risk and a pool of so-called phantom debt. I have my views about that, but I just thought I'd get your on-the-record response to that idea.

Michael A. Linford, Chief Financial Officer

My blog post title is the answer, and I could drop the mic. It's just phantom math.

Ramsey El-Assal, Barclays Bank PLC, Research Division

Just don't drop any f-bombs.

Michael A. Linford, Chief Financial Officer

I shouldn't, you're right. It's just bad math, honestly. It confuses stocks and flows. It confuses the stock of consumer credit debt with the flow of the BNPL loans. The turnover at the BNPL loans is so fast that they disappear before they could ever even show up in the stock.

And in particular, the economist who wrote the article, picked a change in stock of consumer credit card balances and compared it to the flow of BNPL in a given year, which is like my head explodes and how the different logical fallacies and mathematical errors that are being made.

We've estimated that the actual impact of the BNPL to be a very, very, very small percentage of the current consumer credit card balances. And again, from where we started the conversation, that's inherent to how the product works. Our product amortizes quickly. We work very quickly to get consumers to pay back. And that's a very different model than credit cards. Credit cards would like to if your balance never went down. They like the fact that your balance is out there revolving at that level for a long time. Affirm loans that don't go down are credit risk, but every Affirm loan goes down by definition.

And I think that's the approach that we take in terms of the loans. And I think that's even common across all the BNPL landscape. That's something that, while I think we're better at than most, I do think that the product category as a whole is better for consumers when it forces that repayment that's very, very quick.

And there's no ability to say, "I'm going to make a minimum payment and then let the interest compound." You can't do that with these products. And so it is a mistake to think of it that way.

I think we're not surprised that people who make their business pushing revolving credit are upset with us and upset with the category. We don't think that's going to go away. And yet, we spoke up only because the math that was being done was so bad. So if you haven't yet, go read the blog post that my team helped put together. And it really outlines the phantom math of the so-called phantom debt.

Ramsey El-Assal, Barclays Bank PLC, Research Division

Fantastic. Listen, we're out of time. Great conversation. Appreciate it. Maybe I'll turn it over to Zane for a final comment.

Zane Keller, Head of Investor Relations

Yes. Well, thank you again, Ramsey, for hosting today's call. We certainly appreciate your time and all your insightful questions. A replay of today's fireside chat will be available shortly on our Investor Relations website. And with that, we look forward to speaking with you all again in August when we report earnings. Thank you again.

Michael A. Linford, Chief Financial Officer

Thanks, everybody.