



Morgan Stanley Technology, Media & Telecom Conference

March 4, 2025

Call Participants

AFFIRM

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President

OTHERS

James Faucette

Morgan Stanley, Research Division

Presentation

James Faucette

Thank you, everybody, for joining us today. Really excited to be able to chat with Affirm this afternoon to wrap up day two of the 2025 Morgan Stanley TMT Conference. Very pleased to have Libor, President of Affirm, here. But before we get started on our Q&A, I do have to read this disclosure. Please see the Morgan Stanley research disclosure website at morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative. So, let's start.

Just get into it, Libor. Great to have you here at our TMT conference. I got a whole list of questions. We've got 35 minutes. I've got about 2.5 hours worth of questions that we'll go over. Apologies. Before we kind of launch into the specifics, for those of the people that are either here in the room or listening on the webcast that aren't as familiar with your business, can you provide a quick overview of Affirm, what you do for your customers and maybe how you distinguish yourself in the landscape?

Libor Michalek

Sure. So, Affirm is a BNPL provider providing purchase financing online. We, at this point, trailing 12 months have done \$31 billion in volume, 337,000 merchant partners, 21 million active users. So, we continue to grow that quite healthily. We're really pleased with the growth and the performance we've delivered.

We primarily operate in the U.S. We started operating in Canada a number of years ago and just launched in the U.K. in November as we continue to expand internationally. The primary value proposition for the consumer and the merchant is obviously point-of-sale financing.

From the consumer's perspective, it's the ability to access credit. Knowing the price upfront and knowing exactly what they're going to be paying, including the pay-over-time credit component. We think of it as delivering honest financial products that improve people's lives.

From the merchant's perspective, that clarity that the consumer receives as a part of that purchase, understanding their purchasing power over time drives AOV lift that the customer can afford to make larger purchases, and it drives conversion. So, they're able to convert more of their customers to sales.

The other thing that it provides by being able to transactionally price. So, we think about underwriting on the transaction basis, not just the user bases and pricing goes along with that underwriting. And so because we're pricing the transaction, the merchant is able to provide risk subsidies to that purchase through offers like 0%, longer terms, greater exposure limit. It allows them to maintain price integrity on their site while providing incentives to their customers for that conversion. So, increasing conversion even beyond what they're able to do by making pay later available to their customers.

James Faucette

Got it. So, let me ask you a couple of things, and these are kind of probably -- well, let me -- before I get into technicals, I do want to spend a few minutes just on yourself, right? So last earnings call Max mentioned that you were celebrating your 10th anniversary at the company. First, congratulations if I can make to 10 anywhere, I'm pretty happy. But secondly, from your perspective, how has the business evolved and what has been your role over the last decade in developing the business?

Libor Michalek

The business -- I mean the primary evolution has just been the scale of it. I mean -- Max every year, he writes up internally what is the strategy for the company going forward. And I always give him a hard time. You just wrote the same thing using different words what you wrote the last time...

James Faucette

Not even using AI, just copy-paste.

Libor Michalek

Using the same things. The focus has really been on delivering value to the consumer and to the merchant through that real-time transaction, real-time data, real-time pricing, delivering value and being able to continue to grow it. That has remained consistent. Obviously, the scale of it, the breadth of the offering has changed over time. We started with just the point-of-sale financing. We've obviously introduced the card product, which allows the customer to use a physical card, virtual card to use Affirm anywhere. Was it 4 years ago we went public as a company? So that was pretty exciting.

We've partnered with some of the world's largest retailers and platforms, Amazon, Walmart, Shopify. Each one of those was pretty exciting to build and develop and deliver. My role within it is I started out as the CTO, built and ran the engineering organization. And Max has a very specific philosophy of management that he wants to keep his number of directs minimal. And so everybody that reports to him is expected to run multiple things, not just one thing. And so over that time, I've added product, design, risk, so I run the risk department, analytics, security, operations. And I've also, at one point, run HR, but then gave it to somebody who is actually good at it.

James Faucette

Good. Good. Well, there's lots of things that can be said, I guess, about being able to wear all those hats. But I want to ask you a couple of technical-related questions. So point-of-sale financing has been available literally for thousands of years in some form or fashion, right? And even in the way that we think about point-of-sale finance today where you can buy something, get financing from a third party, maybe established or set payment terms, et cetera. From your perspective, as you built the business, what have been the technological innovations or important key developments that you guys have done that have really made a difference and allowed you to grow the way you have?

Libor Michalek

Yes. I mean, I think, as you said, it's a concept. I mean it's something that's been around for thousands of years. And a lot of the impetus and what we've done is, in some ways, in that sense, gone back to the basics, but using technology to deliver it. And really, there is -- when we think about it from the beginning, for enabling technologies that really allowed us to build the company and grow it. I mean the availability of real-time data about consumers was huge. The ability for customers to have access to global devices, right, in real time, the growth of e-commerce. So we're actually shopping through the phone and through the Internet.

And then real-time modeling of risk behavior and being able to deploy sophisticated models to really understand actually what is the risk of this transaction when we pull all the components together. And so making that offering using those components in real time to the customer when it's actually relevant to them when they are in the phase of "I'm thinking about making this purchase. This purchase is something that is larger than my run-of-the-day latte, it matters to me. What is this actually going to cost me? And what is it going to cost me if I think that the purchase price is something that doesn't feel comfortable from a cash flow, just drawing it right from my bank account?"

And so having that immediacy, having that relevancy is, ultimately, I think, what has driven consumer adoption, and then that becomes a flywheel, right? As the consumers react to it as they adopt it, the merchants see it as an important offering and an important lever for growing their own businesses and that has generated the growth.

James Faucette

No, that makes sense. And so I think a lot of times in this area, there have been other businesses that have been built or emerging or still being built trying to apply technology to consumer lending and finance, et cetera. But a lot of them in some ways are still -- as I look at them, are still very much financial driven. And I think that's one of the things when I spend time with you and Michael and Max is like the focus is like credit performance. Let's like make sure that we're delivering what we promised, et cetera. But -- or I guess it was last month, I spent a few days with Max, Michael and visiting investors, et cetera, and

something that really struck me in that conversation was that Max talked about even the importance of him of having what he called "perfect code."

And that was something that was like, I don't even know how to code, but that seems unrealistic to me. So I'd love to hear kind of that thought or like what you think he probably meant by that, but how that's manifested in the work at Affirm.

Libor Michalek

That's also sort of like the perfect wave...

James Faucette

Yes. Right, in surfing. Yes.

Libor Michalek

No. I think ultimately, what it means is the process around how we write software and how we build software. And the sort of evergreen process of being able to improve. I talk to folks on the team and outside about -- technology is ultimately a very -- is the process of iterating. It is not just the static piece of software, a static piece of technology. It is really deploying software into solving a real-world problem and seeing how it's used and getting that feedback and bringing that feedback into the code base into the product and incorporating it.

And with the more quickly you can do that with rigor and your ability to actually cycle on that and observe, orient, decide, act on it, the quicker you can grow, the quicker you improve the product. And the basis of that really is rigor around the software that you're developing. Having the mindset of any kind of problem that you see, anything that you see in terms of bugs from the consumer, production issues, any kind of feedback that you're getting, your ability to incorporate that back into the product and get it back into the world is a competitive advantage. And so when Max talks about perfect code or the rigor with which we develop software, that's really what he's referencing.

James Faucette

It's quite impressive. And I think a little bit of a different philosophy versus what we see a lot of other places, which is let's make it good enough or passable, right? It's a different view.

So let's talk about partnerships and drivers. But before we do that, just quick couple sentences on the fourth quarter was a great report for you, a lot of strength in both your GMV, profitability, et cetera. But what were the couple of key things that you were happy with or at least took away from the fourth quarter and the end of 2024 -- calendar 2024?

Libor Michalek

I mean it was the first quarter in which we did over \$10 billion of volume, so always an exciting milestone. It was our first quarter of GAAP profitability. Also very exciting. We plan on being GAAP profitable going forward, starting in Q4 -- fiscal Q4, so calendar Q2, but last quarter was the first time we actually reached that milestone, added millions of users and continue to increase penetration of 0% offerings with our partners. And the card product continues to grow very healthy, very exciting to see the frequency with which our existing customers are using it as well as the adoption rate within our user base has been exciting.

James Faucette

Got it. Got it. Now for sure. So let's talk a bit about your partnerships. You mentioned kind of in your preamble commentary, working with Amazon, working with Shopify, working with Walmart. I think if you were to take those 3 together, they probably account for a massive portion of e-commerce growth in the U.S. So great partners to have. And clearly, big contributors to your GMV growth for sure. But we still are very much in the early innings of -- if we look at the individual TAM, even within those merchants, right? Can you speak about what you guys are doing to push these opportunities forward and the value that you think Affirm brings to large marketplaces compared to competitors?

Libor Michalek

Well, I mean, I think we -- I think one of the things that we take really to heart is that, that process, I mean, similar to what I was describing around how we operate internally in terms of continuously iterating and improving on our software, we take a similar approach with our partners. So we work really closely with them, develop strong technical relationships between the individual teams actually working on these products over longer periods of time and really -- and then approach it as an evergreen process.

The launch is just the beginning. I think a lot of times people think of, well, you stand it up and you got it out there and you're done and you're going to move on to something else. In terms of our engagement, our staffing and our expectations for what the program does, it is an evergreen investment that we're making with those large partners and that's -- and we see that in terms of the outsized growth that we get even post launch.

And a lot of that comes through -- in a lot of cases, taking -- continuing to expand on the addressable TAM within the merchant focusing on making sure customers understand the offering in the context of that platform and also tailoring the offering for that platform in terms of everything from up-funnel messaging around what offers are available, what terms are available and what the merchant is -- or what the partner is actually able to deliver. So experimenting with 0% with different economics with the different tuning of the product to continuously deliver more.

James Faucette

So let me dive in a little bit into that point is that each of those platforms have lots of ways to pay, including other BNPL providers, et cetera. How do the platforms decide how to prioritize? Where to position? What are the things that you do to make sure that you're putting yourself in the optimal position? Kind of talk through like that process.

Libor Michalek

It's definitely -- it's an interesting process because I think every partner approaches it differently. I mean Amazon, very, very algorithmic, right? They put a lot of emphasis and investment into the algorithms that actually pick placement on their site. And so there, we're very focused on the performance of the product as it relates to what signals are they looking for and how they think about performance to ensure we're putting the best foot forward.

Somebody like Shopify, Shopify installments, where we're the only provider. They're very focused on a bespoke experience. They're looking at it more from trying to declutter, trying to make it crystal clear what's available and focused on, okay, you're our provider, it has to be good, and it has to be there. And it has to be relevant to our consumers. And so more tuning for that experience. So each one of them is ultimately, especially at the large ones who are making those investments is very specific to their cultural norms around how they approach working with partners.

James Faucette

How important with each of those is the ability of Affirm not only to do short term or short duration small ticket, but also longer duration, bigger ticket? Does that -- how much does that factor into positioning, et cetera? How do you evaluate that?

Libor Michalek

I think a lot of the expansion comes from having that breadth available. I think a lot of times they start out trying to solve a very specific problem at what price point are they focused on? And then over time, we really like to work with them to grow the breadth of offerings in terms of cart sizes. The product on the upper end as you start to get into larger purchase prices, it's really driving higher AOVs for them. It's driving greater conversion because you're making credit available.

As you go towards the smaller sizes, it becomes much more about convenience and quickness and ease of checkout and making sure that it's available there for the full range of consumers. And really, it is about different consumers. The relevance of being able to pay over time for different consumers is at different

price points. And having that breadth allows them to satisfy a larger range of consumers across a larger range of purchases. For those large merchants and large partners because they have such a wide variety of cart sizes, having a provider who can actually address all of them, all of those sizes, for all of the different consumer segments that they have becomes very important.

James Faucette

And then how does that -- and I want to go to card in just a second, but just last question on the broad offering. How does that then -- what does that reflect like or what does that make your customer demographic and composition look like generally?

Libor Michalek

So I mean at this point, we've underwritten north of 50 million users in the U.S. We have 21 million active. We have a lot of users that flow back into the product. So it's a pretty wide user base. At this point, it looks largely like the working U.S. demographic kind of a really broad representation of customers across a really broad range of credit quality.

James Faucette

Really interesting. So we've been chatting here for almost 20 minutes, but I want to make sure if anybody in the audience has questions, raise your hand and we'll get you a microphone.

I want to continue with the card now. And look, it's still a really small portion of GMV, but we saw the card GMV more than double year-on-year in your latest results. Obviously, it's still very early days in comparison to your long-term ambitions. But what are the key initiatives that we as investors should be watching for? And how that contributes to growth in 2025?

Libor Michalek

I think that one of the -- there's a few spots where we're continuing to invest really heavily in terms of adoption. So adoption within the existing user base. Today, we have 1.7 million active cardholders. Our active user base as a whole is 21 million. And as I said, we've underwritten 50 million. So we're focused on penetration into that user base and attachment rate, largely focused on making sure that customers -- we're communicating the availability of the card, the relevance of the card at the time when they're actually making purchasing decisions so that they know that it's there when it's most important to them. So there's that whole attachment rate and growth vector.

Second one is continuing to iterate on the credit offerings themselves within that product. Our users today use the card to spend on average \$2,500 a year. We see a pretty clear path to getting that to \$7,500 a year. And so really iterating on the credit portion of that product to enable our customers to be able to access the purchasing power that we think should be available to them within that offering.

And then the third one is a partnership we just signed and it was announced by FIS to bring that product to other people's debit cards. So partnering with FIS and others to put the same product onto existing debit cards that are being issued by banking partners.

James Faucette

Yes. No, it's really interesting to hear -- you mentioned your announcement with FIS. Visa has had recently its own announcement around flexible credentials to enable that and talking a lot about how the customer interaction can change and be modified. But the point being is that as you rolled out the card, it was a very innovative product in the market and really not a lot of other products like it. But what have been the biggest product surprises that you and the team have found since launching the card?

Libor Michalek

I think that probably the biggest surprises on the card itself are largely driven by that adoption. We thought originally that we would get our core diehard users, they would use the product periodically as they had some of our other offerings, but the rate of increase in frequency and really the limiter there is actually the amount of credit we're extending them. And that demand for that product has outstripped kind of our expectations on frequency.

And we continue to see also those same customers continue to use Affirm at the point of sale through our direct integrations with the merchants. So the fact that our customers like the product, are loyal to the product and are using it across different integration types at different merchants through different entry points has been a little bit surprising. We thought it would be a largely -- they would migrate into the card and then that would be their primary use. Instead, it became additive and didn't actually cannibalize that volume, which we had expected.

James Faucette

Interesting. And so you mentioned a few minutes ago that your diehard users, maybe super users that are doing \$2,500, you see a path to \$7,500. Help us understand a little bit like what you think gets us from where we are today to that level for a high-volume user?

Libor Michalek

Primarily credit optimization. So for us, credit outcomes and credit outcomes for our capital partners is job one, making sure that we actually deliver to the expectations that we've set for our partners and for ourselves and continue to manage credit in a really disciplined manner.

And so while managing the delinquency and credit outcomes, continuing to expand how much credit we're actually offering to consumers while still delivering the same credit outcomes is really how we get there. Because those two can be at odds with each other doing that in an iterative step-wise function of, again, taking all the feedback from the product, putting it back into the product and doing that as quickly as possible, still judiciously so we have time to observe the results is how we believe we will get there.

James Faucette

Got it. Got it. So you brought up FIS a couple of minutes ago. Let's talk about that and expand on it because at first glance, it's a little bit head scratching, right? So you talked about FIS, like it's an opportunity for FIS to go to their essentially banking customers or banking institutions that are issuing debit cards, allow them to put essentially Affirm BNPL attach it to that card.

Like help us understand what that landscape really looks like? Because at first blush, well like, all right, well, if I go to a bank and they give me a debit card, I expect they'll give me a credit card too or whatever, right? So making sense of that is maybe a little tricky.

Libor Michalek

I think there's -- I mean there's kind of two components to it. I mean one component is that there are a lot of midsized banks that do not have credit card offerings. They want to keep those users in their ecosystem. They don't want to be just their bank account and debit provider. They want to make it -- create the convenience for their customer of, oh, you're going to make a larger purchase. Here is a better way for you to make that purchase. So keeping that transaction in their ecosystem, keeping that customer in their ecosystem but also keeping the economics and growing the economics. And this gets back to the Visa Flex Credentials that you referenced earlier, where it's very important plumbing that Visa has delivered.

But in order to actually utilize it, you have to be able to provide the credit on top of that individual purchase. So an individual purchase per transaction, the ability to underwrite price, supply the capital, originate the loans, service the loan, take repayment. So that full stack of vertically integrated ability to provide credit on top of that one transaction that's coming over the Visa network is what we're delivering to the debit provider.

James Faucette

Got it. So let's talk about engineering. I like having you here so we can spend a minute to talk about this. But how significant is the product and engineering lift for a partnership with FIS? And is this a co-build motion? Or you guys have already done the work? How does that work?

Libor Michalek

So we have a product today, which is called Affirm Money Account, which has a card associated with it. It is a debit card that has this hybrid mode. You can use it on the Affirm Money Account as a debit card and then you can toggle it into a pay later mode. So we've used that really as a test bed for what we think this product will look like for all the capabilities. So largely, it's working with FIS around how we enter into the - how we work with them to get all of the network information about the transactions, right?

So today, they're routing all the transactions to the ledger that's the debit product. We just need to be able to look at them to see which one of those transactions are actually now going to be credit transactions that we then pull to actually finalize the loan for them. There's also some element of taking that experience and embedding it into either their reference app or the bank partners' app in order to actually be able to create the user experience.

James Faucette

Got it. And then how should we think about this type of arrangement from an operating leverage perspective. Is this accretive to your core business, given more I guess you would spend less on OpEx or not? How are you thinking about it?

Libor Michalek

Well, we think of it is definitely accretive and largely as opening up another distribution channel. I mean, so right, when we think today, we think of just BNPL writ large penetration of e-commerce in the U.S. at 7.5%. Obviously, when we take offline, it's even lower as a percentage. So the whole market continues to steadily grow in terms of consumer demand, consumer usage. And so from our perspective, it's still being relatively nascent in its penetration in the U.S. We think about it as, okay, how many surfaces are we available on.

Different customers think about how are they going to make -- how are they going to pay for this purchase, especially their larger purchases at different points in the shopping journey. Some people think about it all the way at the very beginning. They're thinking about buying this TV. The first thing they think of, I'm going to use Affirm to buy that because it's a big purchase. And they so -- they'll load up -- they'll fire up our app and they'll start that purchase journey from there.

Some people don't think about it until the very end when they're all the way down at the bottom of checkout and they're looking at their payment options and then they decide, and there's all the spots in between. And so we want to be available at all of those touch points. And we have plenty of places where we're available with a direct integration at the merchant through Shop Pay through our own card through Apple Pay, like being available through all the different touch points creates incremental opportunities. And we see those -- there's slight cannibalization in there, as you would expect, but it's largely accretive. And so we keep adding surfaces.

James Faucette

Good. Good. So just on the -- continuing on the theme on distribution and just a few more topics to hit here as we're running out of time. But we've seen beyond FIS in this like very innovative product that you're offering to them that they can offer to their bank customers. But more generally, we've seen a significant increase in distribution breadth across Apple Pay, the card, et cetera. How do you think about the importance of distribution via payment service providers generally? Like how important is that? And what's the opportunity?

Libor Michalek

Yes. I think it's another really important vector. So I think similar, right? As we think about what are the different touch points for distribution, the payment service providers are another really important set of partners that we work with. And something that we're really excited to continue to grow.

It just creates another opportunity where you have people talking to merchants about the value proposition. You have different points in the shopping journey where they show up and anything incremental around consideration and where Affirm is providing that functionality to the consumer is net accretive to our business and obviously, to theirs as well as they try to capture more and more transactions.

James Faucette

Got it. Got it. So last few questions here, macro. Back to spending time last month, it was interesting to hear COO, Michael, talk about how he thinks the world -- or right now, the environment is pretty goldilocks for the company from a funding and an employment perspective and don't really need rates to come down, which was probably a lot of people's thesis around Affirm a year ago or maybe even more recently than that. But to the extent this environment persists how do you think about how much GMV can be unlocked just by getting a bit more flexible with your approval rates and expanding the proverbial credit box a little bit?

Libor Michalek

I think, I mean, I think we are very diligent on the credit box and something that we're very cognizant of. I think there's probably some amount of room. But I think the tighter interest rate environment is an opportunity for us from a customer acquisition perspective in that as other providers, traditional providers have to operate more tightly, that creates more customer demand where customers are looking for alternative providers to meet their credit needs. That's where we step in, again, being able to price on a transaction basis gives us that flexibility to be able to price that specific transaction. I think inflation is in a good spot. Employment is in a good spot, both important elements.

On the credit box itself, I think it also -- again, there's opportunity as the spread on our funding costs have come down. There's economic content that's available to make more compelling offers to consumers. So in some cases, lowering APRs, potentially funding introductory 0% offers. So I think that just creates more opportunity.

James Faucette

Got it. And just in the last couple of minutes, we focused obviously on the U.S. primarily. And when we talk about the macro environment, we're referring to the U.S., but you are starting to expand into the U.K. You've only got a handful of merchants there. That's been made pretty clear. But what are you seeing in the early repayment data from that market? How should we think about the time to meaningful contribution and needle moving volumes, et cetera, coming from the U.K.?

Libor Michalek

It's very early days. So we just launched in November. We're just starting to get any volume out of the consumers and the few merchants that we've launched with. Right now, both consumer uptake -- consumer demand -- and consumer repayment performance is in line with our expectations. I think there's a lot left to do there in terms of continuing to grow the program. We are talking to some of our larger partners. We've agreed with Shopify to expand internationally. So we'll be doing that there as well. And so our plan is to continue to grow that business and work to do it with the partners we have in the U.S. who operate internationally.

James Faucette

Got it. Last minute, lightning round, what are the top 3 to-dos for you this year?

Libor Michalek

Driving frequency, so increasing the user frequency of the product, driving distribution, continuing to build that out and growing our share of cart with our existing merchants and deepening those relationships.

James Faucette

Love it. Thank you so much for joining us. It's been a great way to wrap up the second day.

Libor Michalek

Awesome. Thank you for having me. Really nice to see you.

James Faucette

Thank you.